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ABSTRACT

Prepared as part of Platte Technical Community College's project to help managers and supervisors develop practical, up-to-date managerial skills in a relatively short time, this instructional workbook provides information and exercises applicable to on-the-job situations encountered by independent business owner/managers. Unit I provides information about the personal characteristics of successful business people, helps the manager increase his/her knowledge of self and the chosen field, and discusses business ethics and the problem-solving process. Unit II focuses on time management, office organization, governmental regulations, employee benefits, and insurance, while Unit III stresses skills related to personnel management, communications with employees and other businesses, public relations, and conducting meetings. Five topics are covered in Unit IV: accounting, budgeting, computers, market analysis, and advertising. Unit V concludes with discussions of goal setting, risk taking, use of consultants, research development, and incorporating. Each unit includes: (1) unit objectives; (2) specific objectives; (3) suggested instructor and participant activities; (4) an instructional materials list; (5) references; (6) information sheets which define terms, present topics, and recommend activities and techniques; (7) transparency masters; (8) assignment sheets; and (9) a review test. (AYC)

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Project TEAMS

Techniques and Education for Achieving Management Skills

Independent Business Owner/Managers

Unit I - Are You the Boss?
Unit II - Let's Get Organized
Unit III - A Company is Known by the People it Keeps
Unit IV - The Bottom Line
Unit V - What's Ahead?

ED210048

March, 1980

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Project TEAMS

Professional growth is part of the challenge -- and the satisfaction -- of being a manager or supervisor. Practical experience and traditional education both can plan important roles in developing management skills. Project TEAMS (Techniques and Education for Achieving Management Skills) combines the best elements of both by relating theory directly to practice.

Platte Technical College developed Project TEAMS to meet a growing need for continuing education by managers and supervisors. Because the project's goal is to develop practical, up-to-date management skills in a relatively short time, we asked managers and supervisors to identify the topics which should be covered.

Advisory committees were formed representing each of four management sectors: business and industry, health care administration, private business (owner-managers), and public administration (city, county, education, non-profit organizations). Committee members represented the following Nebraska communities: Albion, Clarkson, Columbus, David City, Fullerton, Grand Island, Humphrey, Lindsay, Monroe, Norfolk, Osceola, Rising City, and Schuyler. Each committee identified and ranked, according to priority, the 25 managerial tasks most important in their profession. A separate course was developed for each of the four sectors after analysis of the identified tasks. Each course entails about 20 classroom hours of instruction. A fifth course, entailing 12 hours of instruction, was developed covering topics identified as important to all four areas of management.

These courses can be offered to either groups or individuals on-campus or in off-campus sites. Students can concentrate on those skills most important to them, and assignments generally can be applied to on-the-job situations.

Project Funding

Funding for Project TEAMS was provided by Title IA of the Higher Education Act of 1965 as ammended and administered by the Nebraska Coordinating Commission for Postsecondary Education. An institutional contribution was provided by the Central Technical Community College Area.

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Project TEAMS Courses

Business and Industrial Supervisors Course

Health Care Administrators Course

Independent Business Owner-Managers Course

Public Administrators Course

General Course: Achievement Management Skills

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

UNIT OBJECTIVES

This unit will give the independent business owner/manager an opportunity to increase management skills in regard to personal characteristics of successful business people, knowledge of self and the chosen field, ethics, and problem solving. In studying the four topics, specific techniques for each will be presented as well as opportunities to participate in actual practice activities.

SPECIFIC OBJECTIVES

Upon completion of this unit, the participant should be able to:

1. Match definitions with the following terms: decision-making, ethics, motivation, and problem solving.
2. Discuss the reasons people go into business for themselves.
3. List at least twelve attributes of successful small-business people.
4. Differentiate between the operating and the managing functions in conducting business.
5. Discuss five ways in which the business manager can improve.
6. Discuss three motivations for the independent business person.
7. List ten points regarding business ethics found in a recent survey of business people.
8. Demonstrate the use of the problem-solving and decision-making processes in handling a given problem situation.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

SUGGESTED ACTIVITIES

I. Instructor:

A. Provide participants with objective sheet.
B. Provide participants with information and assignment sheets.
C. Discuss objectives.
D. Discuss information and assignment sheets.
E. Discuss review sheets.

II. Participants:

A. Read objectives.
B. Study information sheets.
C. Complete assignment sheets.
D. Check that objectives can be achieved.
E. Complete and check review sheets.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

A. Objectives
B. Information sheets
C. Transparency masters

1. Readiness to start a business venture
2. Average executive vs. "I" ethics
3. Unethical practices
4. Industry differences in ethics
5. Influences on business behavior
6. Competition as a source of unethical behavior
7. Personal influences on ethical actions
8. Consequences expected from a code of ethics
9. Problem solving and decision making processes

D. Assignment sheets

1. Rating scale for personal traits
2. Case study of potential independent business owner
3. Ethics questionnaire
4. Problem-solving and decision-making practice

E. Review sheets

II. References:

A. Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968. (C)

B. Frantz, Forrest H. Successful Small Business Management. Englewood Cliffs: Prentice-Hall, 1978. (A)

C. Gellerman, Saul W. Management by Motivation. American Management Association, Inc., 1968. (B)

D. Harpham, Charles. Director of the Professional Development Center, Platte Technical Community College, Columbus, Nebraska (D)

E. Liles, Patrick R. New Business Ventures and the Entrepreneur. Homewood: Richard D. Irwin, 1974. (A)

F. Marketplace Ethics (a filmstrip and sound disc series) Schloat Productions, 1975. (C)

G. Metcalf, Wendell O. Starting and Managing a Small Business of Your Own. 3rd ed. Washington, D.C.: Small Business Adminstration, 1973. (A,B)

H. Noller, Ruth B. Scratching the Surface of Creative Problem-Solving: A Bird's Eye View of CPS. Buffalo: D.O.K. Publishers, Inc., 1977. (D)

I. Schabaker, Joseph C. (Ed.) Strengthening Small Business Management. Washington, D.C.: Small Business Administration, 1971. (A,B)

J. Taylor, John R. How to Start and Succeed in a Business of Your Own. Reston: Reston Publishing Co., 1978. (A)

REFERENCE CODE:

A--personal characteristics
B--self-knowledge
C--ethics
D--problem solving

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

INFORMATION SHEET

I. Terms and definitions:

A. Decision making--The selection of one course of action from two or more alternate courses of action.
B. Ethics--The study of human conduct as it relates to standards of what is moral, good, right, just, or honest.
C. Motivation--The act of stimulating someone (or one's self) to take a particular course of action.
D. Problem solving--A process undertaken by an individual in order to resolve tensions created by a situation that thwarts the course of activity.

II. Reasons people go into business for themselves:

A. Escape--dissatisfaction with the present job situation and future job outlook in that situation.
B. Opportunity:

1. Identifying a new venture opportunity--discovery of new potential in a technical area of particular products or services; a personal interpretation of the situation as one where individual ability can take advantage of an opportunity.
2. Encouragement and support--may be a casual word or a detailed plan, analysis, and cooperation; sources of support include individuals who share in feelings of job dissatisfaction and would like to join in a team venture, family members, potential suppliers, lawyers, bankers, other entrepreneurs, and government officials.

III. Attributes of successful small-business people:

A. Independence--the ability to see what needs to be done and to do it without the direction of others.
B. Self-knowledge--confidence in one's abilities and recognition of one's limitations.
C. Readiness--general eagerness and self-assurance in experience, competence, and capacity for achievement, with corresponding minimization of restraints such as overpowering family and financial obligations (transparency)
D. Good health--long hours require an operator who is relatively robust and not easily tired; good health is also needed to overcome the particular kind of fatigue that comes from mental stress.
E. Mental alertness--ability to tend to details of everyday problems while also gauging the effect on longer-range operations of the business; to sustain activity with enthusiasm.
F. Analytical ability--ability to reason abstractly: to put together the logical chain reaction of decisions and to alternative decisions.

G. Human relations ability--use of insight, sensitivity and a knowledge of human nature to cause people to do and think what is desired and to enjoy doing so; ability to meet unreasonable demands with tact.
H. Responsibility--paying debts on time, keeping promises, making difficult but necessary decisions, undertaking personal sacrifice when necessary, conducting business and personal affairs to better both industry and community.
I. Resistance to stress--the ability to cope with pressure such as change in business cycles, governmental laws and regulations, uncollectible debts from customers, etc.
J. Ability to organize, direct, and control--unorganized data digested and understood, retaining what is important while discarding the trivial; likewise, operations skillfully directed and controlled.
K. Decisiveness--judgment and common sense, backed by available data, experience, and knowledge of objectives, used to make business decisions.
L. Integrity--honest, ethical behavior.
M. Persistence--concentration of effort, including goal setting and planning, and then a "success" attitude--the work and determination that you can do anything you make up your mind to do.
N. Family backing--support and approval; a joint effort.
O. Continuing education--recognition of the need to keep pace with new developments in the field and need for personal growth.

IV. Businesses can be operated or they can be managed, and the independent business person must decide which s/he will do. In general, operating is physical for today, while managing is mental, for tomorrow.

A. The operating functions:

1. Buying (or making)
2. Pricing
3. Selling
4. Paying
5. Pleasing

B. The managing functions:

1. Seeing opportunities--looking ahead to future uses and users.
2. Planning--setting a goal and listing the steps needed to reach that goal on time.
3. Organizing--making decisions uniting markets, money, men, methods, and materials into a team.
4. Measuring--evaluating how results compare with the plan; admitting mistakes.
5. Improving--making changes necessary to progress, no matter how painful.

V. The good manager can always improve by:

A. Comparing--looking at what you did yesterday, last month, or last year and asking yourself how it can be made better.

B. Learning--questioning the person who is doing better.

1. Some managers raise obstacles to learning:

a. Some are not aware of what they don't know.
b. Some are hard to instruct. They say education is for children and training for employees.
c. Some say there is no time even to read, let alone study. They don't realize how expensive the refusal to learn can be.

2. Educational sources readily available to owner/managers:

a. Suppliers
b. Trade associations
c. Extension courses at local or area colleges
d. Community organizations

C. Employing--as management abilities advance, you should work yourself out of manual labor and into mental labor by employing others.
D. Delegating--turning over authority and responsibility to associates as the only way to progress.
E. Sharing--holding on to good employees who show an interest in your business by sharing ideas and responsibilities with them.

VI. Motivation for the independent business person comes from:

A. Challenge--the degree to which an individual recognizes that his/her job demands skills or wisdom s/he does not possess and therefore if s/he is to succeed s/he must learn as much as possible from the experience of the job itself.
B. Decision-making authority and responsibility. The power of the position combined with the awesome responsibility leads to commitment.
C. Internal rewards and, to a lesser degree, external rewards. One survey shows that the strongest motives to own businesses rank as follows:

1. Independence
2. Resources (investment)
3. Respect
4. Profit
5. Permanence

VII. Business ethics is a vast and varied subject. Further, it is essentially a personal matter for each business person to consider individually. However, a recent study of 1800 business people produced the following findings regarding business ethics:

A. Most business men believe: I am more ethical than the average business man, and extensions of myself (my department, company, industry, and country) are more ethical than their counterparts. (transparency)
B. The ethical dilemmas of deepest concern to businessmen are personnel problems; more frequent, however, are unfair competitive practices such as price discrimination or collusion, bribery, and dishonesty in advertising or contracts. (transparency)

C. Businessmen believe that good ethics is good business in the long run, especially in employee and customer relations.
D. Most businessmen think that they have the same ethical standards at home and at work but that it is more difficult to live by these standards at work because of the pressures of competition.
E. The golden rule, though useful as a starting point, is inadequate as a norm for solving most ethical problems in business.
F. Managers typically become more ethical as they grow older, partly because of financial security.
G. It is easier to be ethical in jobs involving fiduciary relationships, such as the accountant's or engineer's, than in those jobs involving competitive relationships, such as the salesman's or purchasing agent's. (transparency)
H. In many cases, a company is "the lengthened shadow of one man," the chief executive, whose values most subordinates eventually accept. The behavior of a man's equals in the company are seen as having the most influence on ethical behavior, while personal financial needs are seen as the greatest stimulus to unethical behavior. (transparency)
I. Competition is the factor of greatest influence on ethical behavior in business. Unethical practices result from both too little and too much competition in an industry. (transparency)
J. Though most businessmen oppose increased governmental involvement in business, many acknowledge that governmental regulation has improved United States business practice.
K. Although formal education usually makes a person more sensitive and articulate about ethical issues, it influences his business decisions much less than does the personal conviction that he should act ethically, which is typically developed before adolescence, chiefly through parental influence. (transparency)
L. A written code of ethical practices is regarded by a majority of businessmen as useful for improving business practices in their industry. (transparency)
M. Businessmen not affiliated with a church or synagogue have attitudes as ethical as those of church-affiliated managers.

VIII. Leaders solve problems and make decisions using a process of: (transparency)

A. Identifying the tension:

1. Think about the concerns you have, the situation that needs change. For example:

I have a mid-management position at a local industry and work approximately 48 hours per week, plus approximately two evening meetings per week and two out-of-town trips of 2-3 days length per month. I have just been notified that I have won a mobile van-type vehicle for making and vending ice cream. I will have to forfeit the prize if I don't take possession within four weeks and sign an agreement to operate the vehicle at least 35 hours per week. What should I do?

2. List the facts about that situation. Be specific about the who, why, what, how, when, and where involved. Be sure these are facts, not opinions. For example:

who--I have won a vehicle for making ice cream.
I already have a job.
what--My job requires considerable time.
I could supplement my income with this vehicle.
when--The vehicle must be claimed within four weeks.
I must agree to operate it at least 35 hours per week.

B. Finding the problem:

1. State the problem in a single, clear, concise statement which begins with the words, "In what ways might I. . .". For example:

In what ways might I keep my job and also have time to operate the ice cream vehicle?

2. Restate the problem two or three times until you are satisfied that the problem statement is one that accurately identifies the problem. For example:

In what ways might I get the most benefit from the vehicle? In what ways might I make the vehicle a financial asset?

C. Finding ideas:

1. List as many ideas as you can think of that might solve the problem. For example:

lease the vehicle to someone else
cut down work hours and run van on nights and weekends
have wife and children run vehicle

2. Stretch your imagination; try to break your habitual thought patterns. Remember that in the idea finding stage you want to produce as many ideas as you can, without judging as to their practicality. For example:

sell the ice cream at the plant during lunch hours and breaks
take call-in orders at home and office
lease to high school as Junior Achievement project
run van full-time and investigate ice cream management opportunities

D. Finding solutions:

1. Look all your ideas over, weighing each as to how well it might solve your problem.
2. To evaluate each solution, use criteria such as:

a. Cost
b. Time involved

c. Effect on quality
d. Effect on utilization of manpower
e. Effect on safety
f. Effect on materials use
g. Other considerations specific to the situation

For example:

cost--leasing van will result in less profit
running van full-time will mean loss of salary at plant
operating van self or with family will make most profit
time--can operate van more than 35 hours per week if lease
selling at plant during lunch and breaks will not make the 35 hours required; also will distract from my own work time
quality--the quality of my work at the plant will probably suffer if I try to cut down on work hours or sell at the plant or take call-in orders at the office
manpower--my wife already has a job also and my children are too young to run the van on their own
leasing to Junior Achievement would mean a large number of different operators of the vehicle

3. Choose the idea you will use, based on the criteria evaluation.

I will lease the van to someone else.

E. Implementing the chosen solution:

1. Devise a plan of action and put it into an outline. For example:

First, I will take possession of vehicle and sign the 35-hour-per-week agreement. Then, I will advertise for someone to operate the vehicle on a leasing basis. Next, I will have a lawyer draw up the leasing agreement.

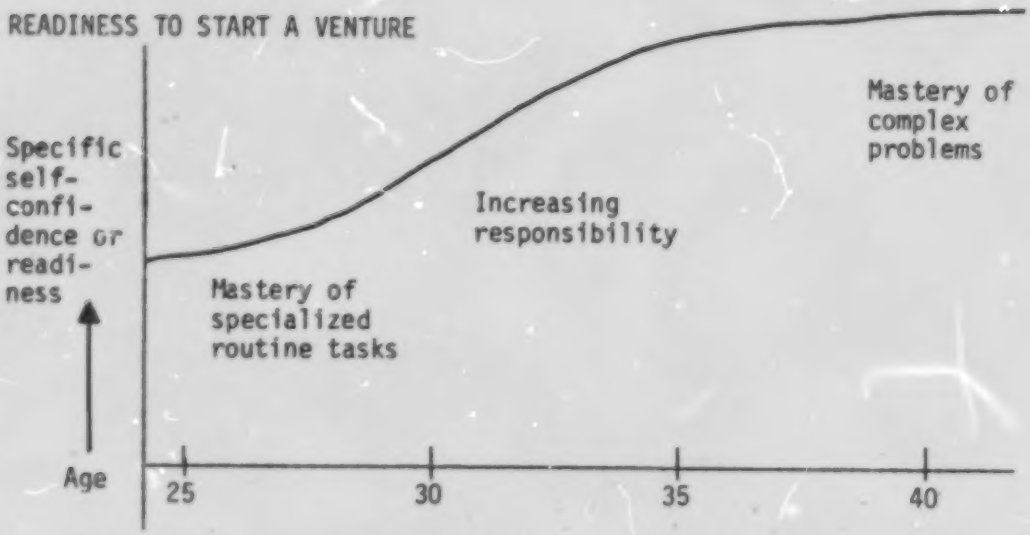
2. Ask yourself who might be involved or help you; what they will do; when and where this will be done; how it will be done; and what the results will be. From your plan of implementation around the answers to those questions. For example:

who--the person I lease to will have to be a high school graduate, have references of good character, and not have another job
what--s/he will need skills in selling, in operation of the equipment, and in keeping a neat work station; s/he will need to be willing to go to the ice cream company office for the 2-week training session in making the ice cream

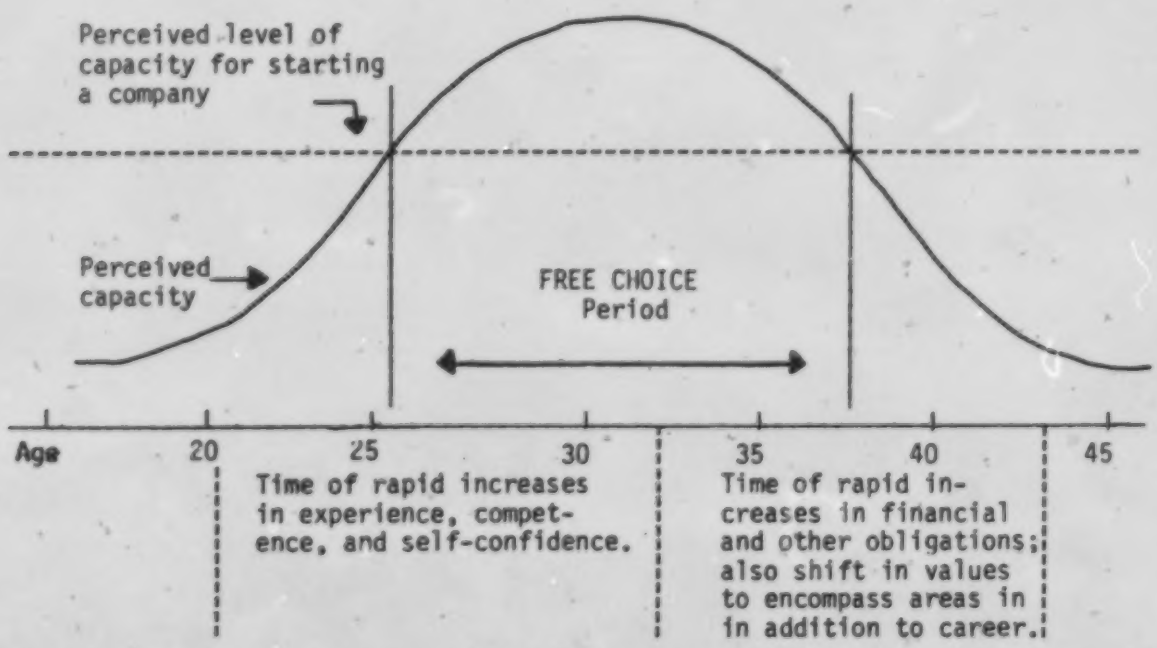
when--s/he must work during prime selling hours: in summer, 2:00 p.m. - 10:00 p.m.; in winter, during school lunch hour and 3:00 p.m. - 10:00 p.m.; weekend work will also be required
where--summer hours will concentrate around swimming pool area, parks, shopping areas; winter hours, at high school during lunch hour, after school, at school events in evenings
how--price will be set by leasor and leasor will also handle all costs (see lease agreement)
results--leasee will receive percentage of profits (see lease agreement)

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #1



THE FREE CHOICE PERIOD FOR THE WOULD-BE ENTREPRENEUR


Perceived level of capacity for starting a company
Perceived capacity
FREE CHOICE Period
Age
20
25
30
35
40
45
Time of rapid increases in experience, competence, and self-confidence.
Time of rapid increases in financial and other obligations; also shift in values to encompass areas in in addition to career.

Source: Liles, Patrick R. New Business Ventures and the Entrepreneur. Homewood: Richard D. Irwin, 1974.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #2

CASE 2

As president of a company manufacturing consumer goods, you are considering new ideas for increasing sales. Your marketing department has presented two programs, each of which would achieve the desired increase in sales. One program employs an advertising theme portraying ownership of your product as a symbol of the purchaser's superiority, while the other program uses an advertising theme emphasizing the quality of your product.

	What I Would Do	What the Average Executive Would Do
Emphasize product quality	65%	52%
Emphasize purchaser superiority	12	32
No reason to make a choice here	23	16

CASE 3

An executive earning $10,000 a year has been padding his expense account by about $500 a year.

	What I Think of This	What the Average Businessman Thinks of This
Acceptable if other executives in the company do the same thing	6%	25%
Acceptable if the executive's superior knows about it and says nothing	12	28
Unacceptable regardless of the circumstances	85	62

Note: The figures do not add to 100 percent since the questions are not mutually exclusive.

Source: Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #3

"THE ONE PRACTICE I WOULD MOST LIKE TO SEE ELIMINATED" (N = 791)[a]

Unethical Practice	Per Cent Specifying This Practice
Price discrimination, unfair pricing, price collusion	25.6
Bribes, excessive gifts and favors, call girls	22.5
Dishonest advertising	14.4
Unfair competitive practices, e.g., pirating employees or ideas	13.2
Cheating customers, overselling, unfair credit practices	8.8
Dishonesty in making or fulfilling contracts	7.0
Other	8.5

Source: Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #4

INDUSTRY DIFFERENCES REGARDING UNETHICAL PRACTICES (N = 1,279)

	How Industry Members Replied to Question, "Any Generally Accepted Unethical Practices?"		
	No	Yes, a Few	Yes, Many
Transportation, public utilities	50%	42%	8%
Banking, investment, insurance	25	65	9
All others	20	70	10
Advertising, media, publishing	12	65	23
Consumer services	10	63	27
Construction	9	65	26

Source: Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #5

INFLUENCES ON BUSINESS BEHAVIOR

A. What influences a businessman to make ethical decisions?

Possible Influence	Average Rank (N = 807)
A man's personal code of behavior	1.5
Formal company policy	2.8
The behavior of a man's superiors in the company	2.8
Ethical climate of the industry	3.8
The behavior of a man's equals in the company	4.0

B. What influences a businessman to make unethical decisions?

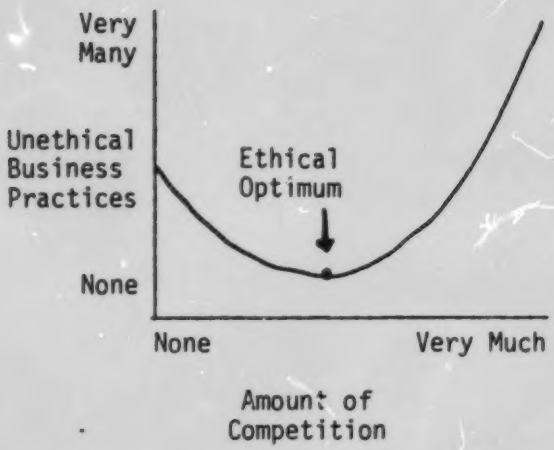
Possible Influence	Average Rank (N = 705)
The behavior of a man's superiors in the company	1.8
Ethical climate of the industry	2.6
The behavior of a man's equals in the company	3.2
Lack of company policy	3.3
Personal financial needs	4.1

Note: The rankings given are weighted averages of respondents' rankings of each item (1, 2, 3, 4, or 5), with most influential = 1, and least influential = 5.

Source: Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #6



Source: Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #7

PERSONAL INFLUENCES ON ETHICAL ACTIONS (N = 100)

Influence	Number Ranking It First	Number Ranking It Second
Father	26	1
Both parents	18	7
Boss	11	5
Mother	9	1
Teacher(s)	8	6
Clergy	8	5
Wife	8	2
Business associate	2	4
Other	6	4
No answer	4	0

Source: Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #8

WHAT CONSEQUENCES DO BUSINESSMEN EXPECT FROM INDUSTRY CODES?
(N = 1,460)

Possible Consequences of a Code	BUSINESSMEN GIVING THIS RATING TO EACH CONSEQUENCE				
	Agree	Partly Agree	Neutral	Partly Disagree	Disagree
Executives would welcome the code as useful aid when they wanted to refuse an unethical request impersonally.	59%	28%	5%	4%	4%
The code would help executives by defining clearly the limits of acceptable conduct.	48	33	7	5	7
The code would raise the ethical level of the industry.	36	35	12	7	10
People would violate the code whenever they thought they could avoid detection.	13	44	8	20	15
In situations of severe competition, the code would reduce sharp practices.	13	38	9	19	21
The code would protect inefficient firms and retard the dynamic growth of industry.	3	8	8	11	70
The code would be easy to enforce.	2	7	4	23	64

Source: Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

TRANSPARENCY MASTER #9

The Problem-Solving Process:

A. Identify the tension

B. Find the problem

C. Find ideas

The Decision-Making Process:

A. Find solutions

B. Implement the solution

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

ASSIGNMENT SHEET #1

RATING SCALE FOR PERSONAL TRAITS IMPORTANT TO A BUSINESS PROPRIETOR

INSTRUCTIONS: After each question place a check mark on the line at the point closest to your answer. The check mark need not be placed directly over one of the suggested answers because your rating may lie somewhere between two answers. Be honest with yourself.

ARE YOU A SELF-STARTER?	I do things my own way. Nobody needs to tell me to get going.	If someone gets me started, I keep going all right.	Easy does it. I don't put myself out until I have to.
HOW DO YOU FEEL ABOUT OTHER PEOPLE?	I like people. I can get along with just about anybody.	I have plenty of friends. I don't need anyone else.	Most people bug me.
CAN YOU LEAD OTHERS?	I can get most people to go along without much difficulty.	I can get people to do things if I drive them.	I let someone else get things moving.
CAN YOU TAKE RESPONSIBILITY?	I like to take charge of and see things through.	I'll take over if I have to, but I'd rather let someone else be responsible.	There's always some eager beaver around wanting to show off. I say let him.
HOW GOOD AN ORGANIZER ARE YOU?	I like to have a plan before I start. I'm usually the one to get things lined up.	I do all right unless things get too goofed up.	I just take things as they come.

HOW GOOD A WORKER ARE YOU?	I can keep going as long as necessary. I don't mind working hard.	I'll work hard for a while, but when I've had enough, that't it!	I can't see that hard work gets you anywhere.
CAN YOU MAKE DECISIONS?	I can make up my mind in a hurry if necessary, and my decision is usually o.k.	I can if I have plenty of time. If I have to make up my mind fast, I usually regret it.	I don't like to be the one who decides things. I'd probably blow it.
CAN PEOPLE TRUST WHAT YOU SAY?	They sure can. I don't say things I don't mean.	I try to be on the level, but sometimes I just say what's easiest.	What's the sweat if the other fellow doesn't know the difference?
CAN YOU STICK WITH IT?	If I make up my mind to do something, I don't let anything stop me.	I usually finish what I start.	If a job doesn't go right, I turn off. Why beat your brains out?
HOW GOOD IS YOUR HEALTH?	I never run down.	I have enough energy for most things I want to do.	I run out of juice sooner than most of my friends seem to.

Source: Metcalf, Wendell O. Starting and Managing a Small Business of Your Own. 3rd ed. Washington, D.C.: Small Business Administration, 1973.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

ASSIGNMENT SHEET #2

Read the following case study and answer the questions:

THE CASE OF JANICE BLAIN

Janice Blain was considering going into the toy store business. Her father would provide the capital, and at age 26, she was tired of being a secretary. She was tired of working for a perfectionist who required the correction of even the most trivial mistake. She worked very hard, stayed busy all day and did not see how she or any human could keep from making some mistakes. "After all, no one is perfect!"

She knew that being independent in a business of her own suited her personality. She was the independent sort: she was rebellious as a teenager, resented school authority as a student, and was still inclined to do and say just about what she pleased.

She was in good health, was intelligent, and was able to persuade others to do things she wanted them to. Her persuasive abilities were enhanced by her smile and her way of daring others to do things.

1. Are Janice's reasons for wanting a business of her own conducive to success? Why?

2. What additional traits does Janice need to help her succeed in business?

3. How could her father help Janice succeed in a toy business?

Source: Taylor, John R. How to Start and Succeed in a Business of Your Own. Reston: Reston Publishing Co., 1978.

INDEPENDENT BUSINESS OWNER/MANAGERS
ARE YOU THE BOSS?
UNIT I

ASSIGNMENT SHEET #3

HARVARD BUSINESS REVIEW
Survey on Ethical Problems and Attitudes

1. Listed below are a number of statements that have been made by observers of the business scene. How do you feel about these statements? Please circle the number which best corresponds to your feeling about each statement. (Please do not circle more than one number per statement).

	Agree	Partly agree	Neutral	Partly disagree	Disagree
a. "Sound ethics is good business in the long run."	1	2	3	4	5
b. "Let the buyer beware."	1	2	3	4	5
c. "The American business executive tends to ignore the great ethical laws as they apply immediately to his work. He is preoccupied chiefly with gain."	1	2	3	4	5
d. "Whatever is good business is good ethics."	1	2	3	4	5
e. "Competition today is stiffer than ever. As a result, many businessmen find themselves forced to resort to practices which are considered shady, but which appear necessary to survive."	1	2	3	4	5
f. "The businessman exists for only one purpose: to create and deliver value satisfactions at a profit to himself. If what is offered can be sold at a profit, then it is legitimate. The spiritual and moral consequences of the businessman's actions are none of his concern."	1	2	3	4	5

2. Imagine that you are a member of the board of directors of a large corporation. At a board meeting, you learn of an impending merger with a smaller company which has had an unprofitable year, and whose stock is presently selling at a price so low that you are certain that it will rise when news of the merger becomes public knowledge. What would you do? (Please check as many as are applicable).

a. I would buy some shares for myself ___
b. I would tell my broker about the forthcoming merger ___
c. I would tell a good friend about the merger ___
d. I would do none of the above ___

What do you think the average director would do in this situation? (Please check as many as are applicable).

a. He would probably buy some shares for himself ___
b. He would probably tell his broker about the forthcoming merger ___
c. He would probably tell a good friend about the merger ___
d. He would probably do none of the above ___

3. Imagine that you are the president of a company in a highly competitive industry. You learn that a competitor has made an important scientific discovery which will give him an advantage that will substantially reduce, but not eliminate, the profits of your company for about a year. If there were some hope of hiring one of the competitor's employees who knew the details of the discovery, would you try to hire him? (Please check one only).

I probably would ___
I probably would not ___

If there were some hope of hiring one of the competitor's employees who knew the details of the discovery, would the average company president try to hire him? (Please check one only).

He probably would ___
He probably would not ___

4. An executive earning $10,000 a year has been padding his expense account by about $500 a year. What do you think? (Please check as many as are applicable).

a. Acceptable if other executives in the company do the same thing ___
b. Acceptable if the executive's superior knows about it and says nothing ___
c. Unacceptable regardless of the circumstances ___

How do you think the average businessman would feel about this? (Please check as many as are applicable).

a. Acceptable if other executives in the company do the same thing ___
b. Acceptable if the executive's superior knows about and says nothing ___
c. Unacceptable regardless of the circumstances ___

5. As president of a company manufacturing consumer goods, you are considering new ideas for increasing sales. Your marketing department has presented two programs, each of which would achieve the desired increase in sales. PROGRAM A employs an advertising theme portraying ownership of your product as a symbol of the purchaser's superiority. PROGRAM B uses an advertising theme emphasizing the quality of your product. Which program would you chose? (Please check one only).

I would probably choose PROGRAM A ____
I see no reason to choose one program over the other ____
I would probably choose PROGRAM B ____

Which program do you think that the average executive would choose? (Please check one only).

He would probably choose PROGRAM A ____
He would see no reason to choose one program over the other ____
He would probably choose PROGRAM B ____

6. Some businessmen give gifts to buyers, managers, or other executives with whom they regularly do business. What do you think? (Please check as many as are applicable).

a. This practice is unethical ____
b. A company should have a written policy about gifts ____
c. No gift worth more than $100 should be offered or accepted ____
d. This practice is unwise ____

How do you think the average executive feels about this? (Please check as many as are applicable).

a. This practice is unethical ____
b. A company should have a written policy about gifts ____
c. No gift worth more than $100 should be offered or accepted ____
d. This practice is unwise ____

7. Many factors can influence a businessman's decisions. From your experience, how would you rank each of the factors listed below according to the influence it exerts on an executive to make decisions which are ethical? (Indicate the most influential by placing a "1" beside it, the next most influential by a "2," and so on to "5" for the least influential).

RANK (1, 2, 3, 4, or 5)

a. Formal company policy ____
b. A man's personal code of behavior ____
c. The behavior of a man's equals in the company ____
d. Ethical climate of the industry ____
e. The behavior of a man's superiors in the company ____

8. Listed below are a number of business practices that occur from time to time. Please circle the number which best approximates your opinion about each of these practices. (Please do not circle more than one number for each practice).

	Always ethical	Depends on the circumstances	Always unethical
a. An executive owns stock in a company with which his own company does business regularly	1	2	3
b. An executive arranges for a "call girl" at the request of a purchasing agent with whom he regularly does business	1	2	3
c. An executive exchanges price information with his counterpart in other companies in his industry	1	2	3

9. Which of the following two statements better describes your feelings about the ethical problems you have had to face as a business person. (Please check one only).

"It is easier to know what is right than it is to do it." ____
"It is more difficult to know what is right than it is to do it." ____

10. How often do you, as an executive, find yourself in the following situation: "I had to make a decision so quickly that there was no time to consider its ethical implications." (Please check one only).

Never ____
Rarely ____
Occasionally ____
Regularly ____
Very frequently ____

11. In every industry there are some generally accepted business practices. In your industry, are there any such practices which you regard as unethical? (Please check one only).

No ____
Yes, a few ____
Yes, many ____
I don't know ____

If yes, please describe the one unethical practice you would most like to see eliminated:

12. Recently, there has been discussion about constructing ethical codes for business. In 1957, the AFL-CIO fashioned an Ethical Practices Code, a measuring rod which organized labor has applied to abuses in its ranks. How do you feel about an effort to develop a code of ethical practices for your business? How would you react if a group of experienced business persons tried to draw up such a code? (Please check one only).

I would favor strongly	____
I would favor somewhat	____
I am neutral on this topic	____
I would oppose somewhat	____
I would oppose strongly	____

13. Assume, for the moment, that an ethical practices code has been drawn up for your business. What do you think such a code and its reasonable enforcement would accomplish? To tell us, please circle the number which best corresponds to your opinion of each of the possible consequences listed below. (Please do not circle more than one number for each possible consequence).

	Agree	Partly agree	Neutral	Partly disagree	Disagree
a. The code would raise the ethical level of the industry	1	2	3	4	5
b. The code would be easy to enforce	1	2	3	4	5
c. In situations of severe competition, the code would reduce the use of sharp practices	1	2	3	4	5
d. Executives would welcome the code as a useful aid when they wanted to refuse an unethical request impersonally	1	2	3	4	5

	Agree	Partly agree	Neutral	Partly disagree	Disagree
e. The code would protect inefficient firms and retard the dynamic growth of the industry	1	2	3	4	5
f. The code would help executives by defining clearly the limits of acceptable conduct	1	2	3	4	5
g. People would violate the code whenever they thought they could avoid detection	1	2	3	4	5

14. Assume, for the moment, that an ethical practices code has been drawn up for your business. Which one of the following groups would you choose to enforce the code? (Please check one only).

A group of executives selected from various companies ____
A government agency ____
The management of each company, i.e., self-enforcement ____
A group composed of executives from the industry plus other members of the community ____

Source: Baumhart, Raymond. An Honest Profit. New York: Holt, Rinehart and Winston, 1968.

INDEPENDENT BUSINESS OWNER/MANAGERS
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ASSIGNMENT SHEET #4

Using the attached sheets with an outline of the problem-solving and decision-making processes, solve the problem below.

You have just had a meeting with Mary Brown, an employee with three years experience and a fine work record. Mary has shared with you that she intends to resign and accept a position with a company in a nearby city. The company is a competitor. Upon being asked the reasons for her leaving, she stated that opportunity for professional growth and advancement exist in the company that will be hiring her. At this company, she perceived herself as being blocked to advancement.

I. The process of problem solving:

A. The tension:

1. The concern or situation that needs change:

2. The facts about that situation:

Who

Why

What

How

When

Where

B. Problem finding:

1. State the problem: In what ways might I

2. Restate the problem:

C. Idea finding:

1. List ideas:

a.

b.

c.

d.

2. Stretch your imagination. List more ideas:

a.

b.

c.

II. The process of decision making

A. Solution finding:

1. Look ideas over

2. Evaluate each, using criteria:

a. Cost

b. Time involved

c. Effect on quality

d. Effect on utilization of manpower

e. Effect on safety

f. Effect on materials use

g. Other considerations

3. Choose the idea you will use:

B. Implement your decision:

1. Make a plan of action:

a. First, I will

b. Then, I will

c. Next,

d. Next,

2. Fill in details:

a. Who will be involved:

b. What will they do:

c. What will they need for the job:

d. When will it be done:

e. Where will it be done:

f. How will it be done:

g. What will the results be:
(how will others benefit)

INDEPENDENT BUSINESS OWNER/MANAGERS
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UNIT I

REVIEW SHEET

Check what you have learned about personal characteristics of the successful business owner/manager, knowledge of self and the chosen field, ethics, and problem solving techniques, by completing the review sheet below. Then check your answers with the information sheet materials. If you get all eight items right, you're doing a terrific job! Seven right is very good; six right is fair; and if you got five or less right, you need some review on the principles.

1. Match the following terms and their definitions:

_____ A. Decision making	1.	A process undertaken by an individual in order to resolve tensions created by a situation that thwarts the course of activity.
_____ B. Ethics	2.	The act of stimulating someone to take a particular course of action.
_____ C. Motivation	3.	The selection of one course of action from two or more alternate courses of action.
_____ D. Problem solving	4.	The study of human conduct as it relates to standards of what is moral, good, right, just, or honest.

2. Discuss the reasons people go into business for themselves.

a.

b.

3. List at least twelve attributes of successful small-business people.

a.

b.

c.

d.

e.

f.

g.

h.

i.

j.

k.

l.

4. Differentiate between the operating and the managing functions in conducting a business by writing "operating" or "managing" in the blank before each activity listed below.

_____	buying	_____	improving
_____	measuring	_____	organizing
_____	paying	_____	planning
_____	pleasing	_____	pricing
_____	selling	_____	seeing opportunities

5. Discuss five ways in which the business manager can improve.

a.

b.

c.

d.

e.

6. Discuss three motivations for the independent business person.

a.

b.

c.

7. List ten points regarding business ethics found in a recent survey of business people.

   a.

   b.

   c.

   d.

   e.

   f.

   g.

   h.

   i.

   j.

8. Demonstrate the use of the problem-solving and decision-making processes in handling the problem situation given below.

   "In three months the lease on the building you are currently using for your business will expire. You have been in this location for the past four years, but have never been particularly happy with either the location nor the building itself. You have just heard of another building that will be available soon. It is larger and more modern than your present building, and is also on a more heavily traveled route. However, the rent is more than twice what you now pay.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

UNIT OBJECTIVES

This unit will give the independent business owner/manager an opportunity to increase management skills in regard to time management, office organization, governmental regulations, employee benefits, and insurance. In studying the five topics, specific techniques for each will be presented as well as opportunities to participate in actual practice activities.

SPECIFIC OBJECTIVES

Upon completion of this unit, the participant should be able to:

1. Match the following terms and their definitions: competition, estate, production, purchasing, regulation, risk, time management.
2. Discuss four techniques for using time more effectively.
3. List seven records businesses need and the questions to be asked before establishing those records.
4. Discuss the processes involved in planning both production and purchasing.
5. List seven types of federal governmental regulations and three types of state and local regulations affecting the small business.
6. Discuss an employee benefits program, especially with regard to the advantages for the employer, the major categories of benefits, and the steps involved in building an effective program.
7. List the three rules of risk management, the four business risks that can be covered by insurance, and four considerations in choosing an insurer.
8. Discuss small business estate planning, with regard to alternatives facing the business person in disposition of the business and necessary plans to be made.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

SUGGESTED ACTIVITIES

I. Instructor:

A. Provide participants with objective sheet.
B. Provide participants with information and assignment sheets.
C. Discuss unit and specific objectives.
D. Discuss information and assignment sheets.
E. Discuss review sheets.

II. Participant:

A. Read objectives.
B. Study information sheets.
C. Complete assignment sheets.
D. Check that you can achieve each specific learning objective.
E. Complete and check review sheets.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

A. Objectives
B. Information sheets
C. Transparency masters:

1. Time management daily log
2. Fringe benefits cost
3. Insurable business risks
4. Business inventory

D. Assignment sheets:

1. Time management log
2. Purchasing case study
3. Governmental regulations case study
4. Insurance case study

E. Review sheets

II. References:

A. Baumback, Clifford M. How to Organize and Operate a Small Business. 5th ed. Englewood Cliffs: Prentice-Hall, 1973. (B,C,E)

B. Chapman, Elwood N. Supervisor's Survival Kit: A Mid-Management Primer. 2nd ed. Chicago: Science Research Association, Inc., 1975. (A)

C. Chruden, Herbert J. and Arthur W. Sherman, Jr. Personnel Management. 5th ed. Cincinnati: South-Western Publishing Company, 1976. (D)

D. Drucker, Peter F. Managing Time. A film available from BNA Communications, Inc., New York. (A)

E. Geiser, Barbara. "Management Succession," Small Business Reporter. San Francisco: Bank of America, 1976. (E)

F. Gibbons, Charles C. "Getting 60 Minutes of Results from Every Hour," Management Review, October, 1970. (A)

G. Greene, Mark R. Insurance and Risk Management for Small Business. Washington: Small Business Administration, 1970. (E)

H. Jucius, Michael J. Personnel Management. 8th ed. Homewood: Richard D. Irwin, 1975. (D)

I. Mackenzie, R. Alec. New Time-Management Methods for You and Your Staff. Chicago: Dartnell Corporation, 1975. (A)

J. Mackenzie, R. Alec. The Time Trap. New York: McGraw-Hill, 1972. (A)

K. Metcalf, Wendell O. Starting and Managing a Small Business of Your Own. Washington: Small Business Administration, 1973. (C)

L. Pickle, Hal B. and Royce L. Abrahamson. Small Business Management. New York: John Wiley & Sons, 1976. (E)

M. Pigors, Paul and Charles A. Myers. Personnel Administration. 6th ed. New York: McGraw-Hill, 1969. (D)

N. Stegall, Donald P. Managing the Small Business. Rev. ed. Homewood: Richard D. Irwin, 1976. (B,E)

REFERENCE CODE:

A--time management
B--office organization
C--governmental regulations
D--employee benefits
E--insurance

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

INFORMATION SHEET

I. Terms and definitions:

A. Competition--A situation in which persons strive among each other, in open and free rivalry, to sell the most at the best price.
B. Estate--Property left at death.
C. Production--The process of making a good or service useful or capable of giving satisfaction.
D. Purchasing--Buying; especially buying goods for resale by a business.
E. Regulation--Control of certain activities through various laws, restrictions, requirements.
F. Risk--The possibility of incurring loss; degree of probability of a loss.
G. Time management--The effective utilization of the resource called "time" so that managerial productivity is enhanced.

II. Lack of time is a common complaint among owner/managers. However, everyone has the same amount of time in a day, and the problem really is one of efficient use of time. Some techniques for using time more efficiently include:

A. Block interruptions.

1. Close the open door. Set aside some time every day to work without interruption. If necessary, come to the office an hour or two early.
2. Control telephone calls. Group your outgoing calls and make them at one time during the day. Keep calls concise.
3. Organize paperwork. Decide what actually needs to be read and what can be ignored. Keep only current paperwork on your desk to avoid distraction from other materials.
4. Control meetings. Be sure they are necessary in the first place. Then start the meeting on time, follow a time-limited agenda, summarize important points of the meeting before adjourning, and end on time.

B. Set priorities.

1. Know and use the Pareto principle: 20% of the things you do ("the vital few") result in 80% of your total significant output; the other 80% of the items on your list are "the trivial many" and will result in only 20% of your total output. Put your best efforts into the "vital few"; don't spend undue time and energy on the "trivial many."
2. Arrange priorities on the basis of answers to questions such as:

a. What will contribute the most to management objectives and departmental goals?
b. What will be best for employee morale and productivity?

C. Use priorities.

1. Make a realistic estimate of how much time each job will take and follow through systematically to make sure tasks are accomplished.
2. Be flexible. Priorities may change suddenly due to new problems arising or solution of one problem leading to expansion or deletion of another one.
3. Be decisive. Don't avoid a priority because of fear. If something has been on your list for long time, either do it or forget it.
4. Delegate. The proper use of staff is one of the best ways a manager can save time.

D. Use a time log. (transparency)

1. List daily goals and set deadlines for reaching those goals. Write goals in terms of results; e.g., "train L.A. to keep inventory cards" instead of "meet with L.A." Remember, goals must be:
    1. Measureable--You will know when you have achieved it.
    2. Achievable--You can do it.
    3. Demanding--You will feel a sense of accomplishment when you have done it.
    4. Flexible--You can change it if necessary.
2. Record activities in detail, at 15-minute intervals throughout the day. Do this immediately after the activity, not at the end of the day, since the purpose is to identify interruptions; e.g., 10:00 - telephone call to J.R. re sales meeting; 10:15 - began working on quarterly report; 10:30 - B.R. stopped by and invited me to go on coffee break.
3. Assign a priority ranking to each action.
4. Comment on each action. How was the item handled? How might it be handled more effectively next time?
5. Analyze your use of time:

    a. To what extent did you achieve each objective? If you did not achieve it, what was the reason?
    b. Which part of your day was most productive? How can you plan to take even greater advantage of that time?
    c. Which were your most frequent or most serious interruptors? How can these be changed?

6. Set goals for the next day, based on analysis of this day's productivity and interruptions.

III. One time-consuming activity is office organization and recordkeeping, but studies of business failures show that reasons for failure can frequently be attributed to inadequate records.

A. Kinds of records businesses may need:

1. Inventory and Purchasing records--to provide facts to help with buying and selling; examples include inventory control records, purchase order file, price change book, accounts payable ledger.
2. Sales records--to reveal facts to determine sales trends; examples include records of individual sales transactions, summary of daily sales, and sales promotion plans.

3. Cash records--to show what is happening to cash; examples include cash receipts journals, cash disbursements journals, and bank reconciliations.
4. Credit--to keep track of who owes you and whether they are paying on time.
5. Employees--to maintain information legally required and also for efficient management of personnel; examples include job descriptions, W-4 forms, records of employee earnings and withholdings, record of reasons for termination of employment, employment applications.
6. Fixtures and property--needed for taking depreciation allowances and for insurance coverage and claims.
7. Bookkeeping records.

B. Records should not be maintained without answering these questions:

1. How will this record be used?
2. How important is the information likely to be?
3. Is the information available elsewhere in an equally accessible form?

IV. Production scheduling and purchasing methods and systems are two aspects of business organization of particular interest to independent business persons.

A. Every business must produce the products or services which are its particular reason for being in business, and must do it in an organized, efficient way. Planning production operations involves:

1. Production layout--know what has to be done, where it has to be done, and with what kinds of layout in order to most easily facilitate the handling of orders, paperwork, and personnel.
2. Production work load--when job assignments are flexible and personnel are adept and willing to perform where needed, the small business can often realize lower costs in the end products and compete very favorably with larger enterprises.
3. Production capability and versatility--many small business can perform activities and services which are difficult for larger business due to specialization of machines and job duties.
4. Production standards--work, time, job, and cost standards that are valid for the entire industry must be respected by small business operators.
5. Production systems and procedures--repetition, experience, and careful analysis of systems and procedures are essential to efficient operation.

B. Purchasing is also a concern of every business. The art of buying involves six basic processes:

1. Determining needs--too much buying in the small business is based on hunches instead of adequate information; the buyer should know the type, quality, brand, size, and quantities of supplies needed; determining customer wants can be done by:

a. Analysis of sales records.
b. Customer surveys.
c. Study of trade information.

2. Locating suitable sources of supply--quality, customer service, and price are the prime criteria.

3. Negotiating terms--amount and length of credit, freight charges, discounts, etc.
4. Maintaining favorable relations with suppliers--prompt payment of bills, reasonable lead time on orders, courteous treatment of salesmen, etc.
5. Receiving, checking, and marking--check for undershipments, damages, overages.
6. Follow-up--data on how well the article sold, customer complaints; an up-to-date picture of the item from the time it entered the store until it is finally disposed of.

V. Many governmental regulations affect the small business, and professional advice should be sought by each business owner to fully understand those that apply directly to him/her. However, some of the most common regulations include:

A. Federal regulations:

1. Regulating competition:

a. Sherman Anti-Trust Act of 1890--aimed at the dissolution of monopolies.
b. Clayton Act and Federal Trade Commission (FTC) Act of 1914--restrict practices such as price-fixing.
c. Wheeler-Lea Act of 1938--prohibit misrepresentation in advertising.
d. Some unfair trade practices identified by the FTC:

1. Price cutting to eliminate competition.
2. Misbranding.
3. Secret rebates.
4. Spying on competitors.
5. Boycotts.
6. Misleading advertising.
7. Bait advertising.
8. Pirating employees.
9. Selling used items as new.

e. Some FTC programs of interest to small businessmen/women:

1. Division of Trade Practice Conferences (written rules interpreting laws enforced by the FTC).
2. Division of Discriminatory Practices (investigate complaints).

2. Price regulations:

a. Price fixing (not applicable in many states since they have no anti-trust laws and many small businesses are not interstate).
b. Price discrimination (Robinson-Patman Act of 1936--offering goods at different prices to different people).
c. Price cutting ("anti-loss-leader laws"--usually cannot be enforced).
d. Resale-price maintenance ("fair-trade laws"--defeated in 1951).

3. Merchandise regulations:

   a. Health and safety laws--Food and Drug Administration, 1938.
   b. Labeling--especially applicable to wool and fur products.
   c. Trade names, patents, and trademarks--requires registering with the Patent Office as result of the Lanham Act of 1947.

4. Consumer protection laws:

   a. Fair Credit Reporting Act of 1971--provides for control of erroneous information on consumer credit ratings.
   b. Truth-in-Lending Act of 1969--disclosure of credit terms in standard terminology.

5. Advertising regulations--prohibits use of misleading names like "cylk" or "artificial silk;" also restricts use of "free" in advertising promotions.
6. Environmental protection--various pollution controls.
7. Labor legislation:

   a. Settlement of labor disputes--laws regarding unfair union practices including the Wagner Act of 1935, the Taft-Hartley Act of 1947, and the Landrum-Griffin Act of 1959.
   b. Fair employment practices--1964 Civil Rights Act, EEO, Affirmitive Action, Handicapped.
   c. Regulation of wages, hours, and working conditions--Fair Labor Standards Act of 1938, dealing specifically with minimum hourly wages and time-and-a-half for overtime work (employees of retail stores and service establishments with annual gross sales volumes of less than $250,000 are not covered).
   d. Protective legislation for women and children--the Fair Labor Standards Act and conditions of equal pay for equal work and equal opportunity for women.
   e. Economic security legislation--primarily Social Security and unemployment laws; designed to:

      1. Minimize losses an employee might sustain from industrial accidents, occupational diseases, and involuntary unemployment.
      2. Provide hospital and medical care for the employee.
      3. Furnish some income to the employee after his/her retirement.

   f. Occupational Safety and Health Act of 1970--general duty of employer to furnish places of employment free from recognized hazards likely to cause death or serious physical harm.

B. State and local regulations:

1. Licensing--most service businesses are subject to regulation for the protection of public health and morals.
2. Fire, safety, and zoning restrictions.
3. Workmen's compensation--protection from income loss from industrial accidents and occupational diseases.
4. Involuntary unemployment benefits.
5. Other state laws similar to federal laws.

VI. The employee benefit program:

A. Advantages of having a benefit program:

1. Heightened morale.
2. Reduction in absence, tardiness, accidents, complaints, and personnel turnover.
3. Opportunity for constructive interaction between employees and employer.
4. Greater productivity and therefore lower unit cost.

B. Major categories of employee benefits:

1. Legally required benefits (unemployment insurance, Social Security, and workmen's compensation).
2. Private welfare and security programs (pension plans, life and health insurance payments); these are some of the oldest and most popular benefits with 9 out of 10 persons under 65 now covered by private health insurance.
3. Pay for time not worked (holidays, vacations, sick leave, rest periods).
4. Extra compensation plans (profit sharing, savings plans, suggestion awards).
5. Employee services (discounts on purchase of products, educational assistance).

C. Steps in building an effective benefits program:

1. Develop objectives. Objectives should be concerned with satisfying employee needs and expectations while maintaining consistency with company policies and employer requirements.
2. Invite employee participation. The success and value of most benefit plans are dependent upon group acceptance.
3. Communicate the benefits. Clear, accurate information regarding the use of the benefits should be available to employees if they are to appreciate those benefits.
4. Control costs. Administration costs for benefit programs as well as actual costs must be considered. A 1973 study by the national Chamber of Commerce office found that fringe benefits make up an average of 32.7% of the payroll. (transparency)
5. Recognize problem areas. Some employees do not like or want benefits. Others abuse benefits and continually demand additional benefits. Also, other personnel functions may be neglected in the administration of benefit programs. Legislative changes, such as the raising of the retirement age, will also affect benefits and could cause problems.

VII. Risk is an inevitable part of business, but precautionary measures and proper insurance coverage can help minimize risk.

A. Three rules of risk management:

1. Don't risk more than you can afford to lose. The most important factor in determining whether a particular risk should be transferred to an insurance company or assumed by the business itself is the maximum potential loss which might result from the risk; if the loss would be likely to force the firm into bankruptcy or cause serious financial impairment, then the risk should not be assumed.

2. Don't risk a lot for a little. There should be a reasonable relationship between the cost of the insurance and the value accruing from that insurance. For example, additional premiums to reduce "deductibles" are rarely worthwhile. On the other hand, many businesses risk severe losses in an attempt to save a little on insurance premiums.
3. Consider the odds. Contrary to popular opinion, a high probability of a loss may not mean insurance should be obtained. High probability losses may be predictable and small and can be included in business budgeting. The primary consideration again is the possible size of the loss rather than the probability.

B. In general, the following business risks can be covered by insurance: (transparency)

1. Loss or damage of property--including merchandise, supplies, fixtures, and buildings, from causes such as fire, vandalism, hail, wind, etc.
2. Loss of income resulting from interruption of business because of damage to the firm's operating assets.
3. Personal injury to customers, employees, and the general public.
4. Loss to the business from the death or disability of key employees or the owner.

C. In comparing different types of insurers, the following should be of primary interest:

1. Financial stability--necessary if claims are to be paid fully and promptly.
2. Field of specialization--some insurers specialize in certain types of coverage and can offer advantages of greater experience and lower costs in those areas.
3. Flexibility--some insurers will allow special provisions to be inserted, make unusual arrangements for determining the final premium, or provide for certain services according to particular requirements.
4. Cost of coverage--avoid an insurer who offers a low premium if this premium is made possible by unduly strict claims settlement policies, setting aside of inadequate loss reserves, or low commissions so that agents give poor service.

VIII. Typically, the owners of small businesses <u>are</u> the businesses; therefore, it is of primary importance that they consider what will happen to that business in the event of their death or disability.

A. Some common alternatives:

1. The business can be left to heirs.
2. It can be sold to outsiders.
3. It can be continued by the executors or trustees.
4. It can be liquidated.

B. An owner should always have available:

1. An inventory, which includes: (transparency)

a. Financial facts:

1. Financial statements.
2. Financial trends and ratios.
3. List of current bank accounts.
4. List of previous banking connections.
5. List of paid tax bills.
6. List of insurance policies.

b. Administration facts:

1. Company history.
2. Organization chart and job descriptions.
3. Policies.
4. Legal matters.
5. Outside services.

c. Operating and technical information:

1. Purchasing data--procedures, suppliers, etc.
2. Production data--equipment list, scheduling, standards, etc.
3. Marketing data.

2. A plan of how s/he wishes the business to proceed, including:

a. A will covering disposition of the business.
b. A buy-sell agreement or a carefully drawn plan either for disposal or for continuation of the business.
c. An estimate of the funds required to carry out the details of the plan.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

TRANSPARENCY MASTER #1

DAILY TIME LOG

Date: April 10

Name: J. Johnson

Goals: (1) finish quarterly report
(2) hire Secretary
(3) prepare agenda for staff meeting

TIME	ACTION	PRIORITY High Medium Low	COMMENTS Delegate to Combine with Next time say "No." Eliminate Other
8:00	read mail ↓	med.	
8:30	answer two letters — D.T.R. and P.L.	med.	could have waited
9:00	interview sec. ↓	high	necessary
9:30	begin agenda	high	need uninterrupted time
	phone call from P.L.	med.	
10:00	continue agenda	high	
	coffee w/ R.L.	low	interruption — eliminate
10:30	interview sec. ↓	high	necessary
11:00	finish agenda	high	could have been done faster w/o interruptions
etc.			

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

TRANSPARENCY MASTER #2

FRINGE BENEFIT COSTS

Fringe Benefit Category	Percentage of Payroll
Pension and other agreed-upon payments, including pension-plan premiums and payments not covered by insurance-type plan, life insurance premiums, death benefits, sickness, accident, and medical-care insurance premiums, hospitalization insurance, etc., separation or termination pay allowances, discounts on goods and services purchased from company by employees, free meals. ... (Employer's Share).	10.5
Payments for time not worked, including paid vacations and bonuses in lieu of vacation, payments for holidays not worked, paid sick leave, and payments for State or National Guard duty, jury, witness and voting pay allowances, payments for time lost due to death in family or other personal reasons, etc.	9.2
Legally required benefits, including old-age and survivors insurance, unemployment compensation, workmen's compensation, railroad retirement tax, railroad unemployment insurance, state sickness benefits insurance, etc. . .(Employer's Share)	7.5
Paid rest periods, lunch periods, wash-up time, travel time, clothes-change time, get-ready time, etc.	3.2
Profit-sharing payments, Christmas or other special bonuses, service awards, etc., and special wage payments ordered by courts, payments to union stewards, tuition refunds, etc.	2.3
	32.7

Source: Employee Benefits, 1973 (Washington, D.C.: Chamber of Commerce of the United States of America, 1974), p. 8.

in Herbert J. Chruden and Arthur W. Sherman, Jr. Personnel Management, 5th ed. Cincinnati: South-Western Publishing Co., 1976, p. 520.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

TRANSPARENCY MASTER #3

INSURANCE PLANNING

In general, the following business risks can be covered by insurance:

1. Loss or damage of property--including merchandise, supplies, fixtures, and building
2. Loss of income resulting from interruption of business because of damage to the firm's operating assets
3. Personal injury to customers, employees, and the general public
4. Loss to the business from the death or disability of key employees or to the owner

Some specific types of insurance include:

1. Fire and general property insurance--covering fire losses, vandalism, hail, and wind damage
2. Plate-glass insurance--covering window breakage
3. Consequential loss insurance--covering loss of earnings or extra expenses in cash of suspension of business due to fire or other catastrophe
4. Burglary insurance--covering forcible entry and theft of merchandise and cash
5. Fidelity bond--covering theft by an employee
6. Fraud insurance--covering counterfeit money, bad checks, and larcency
7. Public liability insurance--covering injury to the public, such as a customer or pedestrian falling on the property
8. Product liability insurance--covering injury to customers arising from the use of goods bought in a store
9. Workmen's compensation insurance--covering injury to employees at work
10. Life insurance--covering the life of the owner(s) or key employee(s)

Source: Baumback, Clifford M. How to Organize and Operate a Small Business. 5th ed. Englewood Cliffs: Prentice-Hall, 1973.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

TRANSPARENCY MASTER #4

INVENTORY OF FINANCIAL FACTS

- Financial statement for the past five years.
- Brief description of company's working capital turnover trends, return on investment trends, operating ratios, etc.
- List of current bank accounts, including approximate average balances and name of each bank employee who handles accounts.
- List of previous banking connections, indicating line of credit and bank officer dealt with.
- List of paid tax bills--federal, state and local. Brief description of any tax problems.
- List of insurance policies, description of coverage, premium costs and name of agent or broker who services policies.
- Copies of financial and control reports with preparation and distribution frequency noted.

INVENTORY OF FACTS ABOUT ADMINISTRATION

Company History

- Date organized, key founders and major events (such as move from rented building to owned premises).
- Collection of clippings about the business from newspapers, trade journals and publications.
- Brochures issued on new products, processes, personnel.

Organization

- Organization chart, showing key spots and names of persons presently in each position.
- Job descriptions for key spots, including owner-manager's.
- Description of each key employee, including age, length of service, jobs held and dates, history of earnings, education, special training, evaluation of potential, identification of strong and weak points.
- Copies of any reports or studies made on the business by owner-manager, employee or outside consultant.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

TRANSPARENCY MASTER #4 (continued)

Policies

- Copies of a policy manual (if it exists) or a policy file of information on vacations, retirement plans, employee loans and advances, credit and selling terms, etc. Copies of memoranda updating such policies should be included.

Legal Matters

- A list of patents, licenses and royalty agreements pertinent to the operation, and notation of where each document is filed.
- List of all employment and labor agreements, including changes made subsequent to original terms.
- List of all leases.
- List of all contracts with suppliers--and customers.
- List of any lawsuits, their outcome and any suits pending.

Outside Services

- Name, address and brief description of outside professionals who work with the company, such as bankers, accountants, insurance agents, or brokers, advertising agencies, publicists and other consultants.

INVENTORY OF OPERATING AND TECHNICAL INFORMATION

Purchasing

- Vital materials purchased.
- List of major suppliers, length of business relationships with each, reason for continued patronage.
- List of present contracts with these concerns, including any specified dates for review or renewal.
- Basic procedures for buying, including required approval for various types or sizes of purchases.

Production

- List of major pieces of equipment.
- Brief appraisal of current plant and equipment efficiency.
- List of product and manufacturing specifications and process procedures.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

TRANSPARENCY MASTER #4 (continued)

- List of any studies made to improve layout, production flow and quality control.
- Brief description of how production is scheduled and controlled.
- Description of standards used for measuring performance, eliminating excesses or minimizing waste.

Marketing

- List of products or services and brief descriptions of each item's (or item group's) selling points, market position, profitability and potential for expansion or discontinuance in future years.
- Market description by geographical area and types of customers and list of largest customers.
- Distribution channels.
- Brief outline of advertising program and coordination of advertising with other selling efforts.
- Training procedures--initial and continuing--for sales staff.
- Brief description of competitors, including a list of their products, location and size of their plants and share of market.

Other Areas

- Where applicable, an inventory of technical data in such fields as research and development, engineering, quality control and traffic.

Source: Geiser, Barbara. "Management Succession," Small Business Reporter. San Franciso: Bank of America, 1976.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

ASSIGNMENT SHEET #1

TIME MANAGEMENT

Use the time log sheets attached and keep a log of your own work time in the next 48 hours. At the end of that time analyze your use of time, using the questions on the information sheet.

Date: _____

DAILY TIME LOG

Name: _____

Goals: (1) _____

(2) _____

(3) _____

TIME	ACTION	PRIORITY High Medium Low	COMMENTS Delegate to _____ Next time say "No." Eliminate Other
8:00			
8:30			
9:00			
9:30			
10:00			
10:30			
11:00			

11:30			
12:00			
12:30			
1:00			
1:30			
2:00			
2:30			
3:00			
3:30			
4:00			
4:30			
5:00			

adapted from Mackenzie, R. Alec. New Time Management Methods for You and Your Staff. Chicago: Dartnell Corporation, 1975.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

ASSIGNMENT SHEET #2

LOST SHIRTS OR "LOST SHIRT"?

One of the top men's wear shops in Peoria, Illinois, was recently bought by Norman Schultz with funds he had accumulated as a professional hockey player. Established forty years before, it was known for good assortments of current styles at reasonable prices. Upon retiring, the former owner gave Mr. Schultz a generally good price and worked with him for three months following his retirement.

Yesterday, on a buying trip to Chicago, Norman was approached by a shirt salesman, who offered him eight dozen shirts at an attractive price. Usually priced at $36.00 per dozen or more to sell at $4.95. these were available at $29.50 per dozen, and thus could be sold for as low as $3.95. The styles were somewhat mixed, but generally good for this season, which is now almost half over.

An inventory of the shirts as to sizes in the assortment is presented below in numbers of shirts in each size:

	14	14½	15	15½	16	16½	17	17½	Total
White, plain	6	9	3	6	3	6	3	6	42
Colors, mixed, plain	3	9	-	3	6	-	6	3	30
Novelty stripes	3	6	6	-	-	3	9	3	30
Novelty prints	9	6	3	-	6	-	3	9	36
Mod collars, mixed patterns	-	6	9	3	-	3	3	-	24
Semiformal	3	3	6	9	6	3	3	6	39
Totals	24	39	27	21	21	15	27	27	201

Shirts are in boxes of three; sleeve lengths tend to be appropriate to neck sizes, color assortments are well-balanced.

Norman was definitely interested in this opportunity. His stocks were low, particularly in the more popular sizes and styles. The former owner had left him a basic model-stock, which he had followed for many years, that looked somewhat like this:

	14	14½	15	15½	16	16½	17	17½
Whites (%)	8	10	18	24	15	12	8	5
Colors (%)	8	12	20	24	15	10	6	5
Novelties (%)	6	12	21	22	18	10	8	3

Norman has studied the inventory of the assortment offered, has looked at the percentages recommended in the model, and now must let the shirt salesman know if he wants to buy the shirts. While he respects the former owner's judgment, he feels that the price offered is attractive and that the price he could offer his customers would bring him the business he needs. In many ways, his predecessor was an old-fashioned and conservative buyer. Norman feels that a more aggressive and youthful approach will appeal to his hockey fan customers and other admirers.

Norman Schultz must make a decision now. If you were in his situation, what would be today's decision and why? Any alternatives?

Source: Baumback, Clifford M. How to Organize and Operate a Small Business. 5th ed. Englewood Cliffs: Prentice-Hall, 1973.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

ASSIGNMENT SHEET #3

C A S E

PULVER'S OFFICE SUPPLY

James Pulver has operated an office supply store in a town of 150,000 for 25 years. There is only one other office supply store in town and it has maintained good relations with James for many years. They meet about once a year and try to keep their prices in line with each other. They both feel there is enough business for both of them and there is no use "cutting each other's throat."

Recently, a chain of office supply stores was created and they have just established one of their stores in the same town in which James has his store. The new chain purchases a large volume of merchandise, and James has learned that they are selling some products cheaper than he can buy them. His business has fallen off drastically, and James is worried that he may not be able to stay in business much longer.

James does admit that the new store has better marketing and promotional practices and seems more efficient than his operation. He suspects that he may have been too lax about his business because of the lack of real competition.

QUESTIONS

1. Evaluate each of the following laws to determine if the new chain or James may be in violation of them.

   (1) Sherman Antitrust Act
   (2) Clayton Act
   (3) Federal Trade Commission Act
   (4) Robinson-Patman Act
   (5) Food, Drug and Cosmetic Act

2. If James finds out that the new chain is in violation of any of these laws, what would you advise him to do?

3. What assistance could James obtain to improve his business?

Source: Pickle, Hal B. and Royce L. Abrahamson. Small Business Management. New York: John Wiley & Sons, 1976.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

ASSIGNMENT SHEET #4

GAMBLING IN THE SNOW?

Alfred Cummins and Roy Page have operated a farm supply store near Green Creek for several years. They are experienced businessmen, both in their early thirties. Al is a born mechanic, and Roy an excellent manager. Both have many friends in the rural area around Green Creek. Their business consists of stock feed and farm seeds, hand garden tools, and more recently a line of powered garden equipment such as tractors and mowers. In connection with the last line they have an increasingly busy repair shop. They also rent garden equipment to the public.

A new development has taken place recently. Green Creek is in a semi-mountainous area, with enough snow in winter to encourage skiers. In fact, a ski run is being set up almost next door to their business and will no doubt attract skiers from major cities nearby. The owners of the run are friends and neighbors of Cummins and Page, and have suggested that the men contract to operate the ski lift and to rent snowmobiles to the public--in other words, to handle these mechanical aspects of the lift's operation. The wooded 80-acre area adjacent to the ski lift is large enough to permit snowmobile use.

The two men are fascinated by the whole idea. It should be a profitable and exciting year-round business. At a bridge party the other night, however, a neighbor, a lawyer who works in the city nearby, asked Al, "How much more insurance would that call for?" Al answered, "We already have standard liability insurance for the store and shop--what else would we need?" The lawyer replied, "You may have enough, or you may have been very lucky up till now--better check into it."

Check into it. List the kinds of insurance that might be required. Any casualty insurance man will be happy to help the student.

Source: Baumback, Clifford M. How to Organize and Operate a Small Business. 5th ed. Englewood Cliffs: Prentice-Hall, 1973.

INDEPENDENT BUSINESS OWNER/MANAGERS
LET'S GET ORGANIZED
UNIT II

REVIEW SHEET

Check what you have learned about time management, office organization, governmental regulations, employee benefits, and insurance, by completing the review sheet below. Then check your answers with the information sheet materials. If you get all eight items right, you're doing a terrific job? If you get seven right, that's good; six right is fair; and if you get five or less right, you need some review on the principles.

1. Match the following terms and their definitions:

_____ A. Competition	1. A situation in which persons strive among each other, in open and free rivalry, to sell the most at the best price.
_____ B. Estate	2. Buying; especially buying goods for resale by a business.
_____ C. Production	3. Control of certain activities through various laws, restrictions, requirements.
_____ D. Purchasing	4. Property left at death.
_____ E. Regulation	5. The effective utilization of the resource called "time" so that managerial productivity is enhanced.
_____ F. Risk	6. The possibility of incurring loss; degree of probability of a loss
_____ G. Time management	7. The process of making a good or service useful or capable of giving satisfaction.

2. Discuss four techniques for using time more effectively.

a.

b.

c.

d.

3. List seven records businesses need and the questions to be asked before establishing those records.

records needed:

a.

b.

c.

d.

e.

f.

g.

questions:

a.

b.

c.

4. Discuss the processes involved in planning both production and purchasing.

production:

a.

b.

c.

d.

e.

purchasing:

a.

b.

c.

d.

e.

f.

5. List seven types of federal governmental regulations and three types of state and local regulations affecting the small business.

federal:

a.

b.

c.

d.

e.

f.

g.

state and local:

a.

b.

c.

6. Discuss an employee benefits program, especially with regard to the advantages for an employer, the major categories of benefits, and the steps involved in building an effective program.

advantages:

a.

b.

c.

d.

categories:

a.

b.

c.

d.

e.

steps:

a.

b.

c.

d.

e.

7. List the three rules of risk management, the four business risks that can be covered by insurance, and four considerations in choosing an insurer.

rules:

a.

b.

c.

covered risks:

a.

b.

c.

d.

considerations:

a.

b.

c.

d.

8. Discuss small business estate planning with regard to alternatives facing the business person in disposition of the business and necessary plans to be made.

alternatives:

a.

b.

c.

d.

plans:

a.

b.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

UNIT OBJECTIVES

This unit will give the independent business owner/manager an opportunity to increase management skills in regard to personnel management, communications both with employees and with other businesses, public relations, and conducting meetings. In studying the topics, specific techniques for each will be presented as well as opportunities to participate in actual practice activities.

SPECIFIC OBJECTIVES

Upon completion of this unit, the participant should be able to:

1. Match the following terms and their definitions: communication, delegation, motivation, public relations.
2. List the three questions which are the basis for effective hiring practices.
3. Describe the three steps to be taken in recruiting employees.
4. Discuss four tools that may be used in the hiring process.
5. List five benefits to the company of training new employees, five common training errors, and seven components of a good training program.
6. List four aspects of working conditions that influence employees.
7. Compare and contrast the motivation theories of Maslow and Herzberg.
8. Discuss four factors that influence motivation and seven effective motivational devices.
9. Discuss communication, especially three forms of communication, the eight steps in the communication process, eight barriers to communication, and three tips for increasing communication effectiveness through listening.
10. List five reasons why managers should delegate, five reasons why managers fail to delegate, five delegation techniques, and the two instances when delegation will not work.
11. List the three purposes of outside business communications, the three questions that should serve as guidelines in those communications, and the five principles of successful business communications.
12. List the four characteristics of outside groups and the five necessities of public speaking.

13. Discuss public relations, specifically the three means of accomplishing the goal of public relations, the five components of the public relations procedure, and seven community relations techniques.

14. Discuss the planning and leading components of conducting a meeting skillfully.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

SUGGESTED ACTIVITIES

I. Instructor:

A. Provide participants with objective sheet.
B. Provide participants with information and assignment sheets.
C. Discuss objectives.
D. Discuss information and assignment sheets.
E. Discuss review sheets.

II. Participants:

A. Read objectives.
B. Study information sheets.
C. Complete assignment sheets.
D. Check that objectives can be achieved.
E. Complete and check review sheets.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

A. Objectives
B. Information sheets
C. Transparency masters:

1. Job description form
2. Summary of a selection procedure
3. Personnel tests
4. Interviewing procedure
5. Check list for training the new worker
6. Maslow's hierarchy
7. Herzberg's motivation theory
8. Herzberg and Maslow compared
9. Ratings for work conditions
10. Motivational devices
11. Communication process
12. Public speaking
13. Public relations

D. Assignment sheets:

1. Communication self-quiz
2. Delegation study
3. Motivation case study
4. Public relations case study
5. Meeting evaluation

E. Review sheets

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REFERENCE CODE:

A--personnel management
B--communications-- employee
C--communications-- business
D--public relations
E--conducting a meeting

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

INFORMATION SHEET

I. Terms and definitions:

A. Communication--The transmission and reception of a message that travels between two or more persons.
B. Delegation--A process by which supervisors entrust certain employees with the accomplishment of specific work objectives; those employees are given responsibility for reaching those objectives and authority sufficient to perform.
C. Motivation--The act of stimulating someone to take a desired course of action.
D. Public relations--The management function which evaluates public attitudes, identifies the policies and procedures of the organization with the public interest, and executes a program of action to earn public understanding and acceptance.

II. Effective hiring practices are based on answers to questions such as:

A. What are the requirements of the jobs to be filled?
B. What kinds of and how much personnel is needed?
C. From what sources may the required personnel be found?
D. What procedures should be used to select candidates for employment?

III. Small businesses often have trouble recruiting good employees. Some recruitment practices to follow include:

A. Assess manpower needs, both short and long term. Arrive at job descriptions and position specifications. (transparency)
B. Organize a regular recruitment campaign, bearing in mind that the principles of selection involve having a large number of recruits from which to pick the most suitable applicants. Some particular selling points for small business employment include:

1. The breadth of experience possible, as opposed to a large company where the applicant is likely to be assigned only one job area with little opportunity to learn about other areas.
2. Possibilities of profit sharing or other incentive payments, based on own individual efforts.
3. A public image of your company as "a good place to work;" individual caring and concern for each employee.

C. Tap all sources of recruitment. Manpower sources include:

1. Present employees; a good steady worker often has friends of similar character and capacity and a satisfied employee is your best recommendation.
2. Former employees who left of their own accord; they can either be rehired or may be able to refer other people to you.
3. Chance applicants; have potential applicants fill out

application blanks or at least leave names and addresses, even if you do not have an opening at the moment.
4. Trade and industrial associations; local business organizations may know of potential employees and be able to refer them to you.
5. Clergymen also may know of newcomers to the area who may be potential employees.
6. Schools and teachers may be able to supply names of recent graduates and provide recommendations as to their capabilities.
7. Customers and suppliers may also supply names.
8. Employment agencies.
9. Advertising in the press; probably the most fruitful and most commonly used method; the "open" ad listing the name and address of your company usually yields more applicants and can also be a general source of good publicity for your firm; the "blind" ad with only a box number enables you to advertise without the knowledge of your employees and eliminates the need to respond to all applicants.

IV. The hiring process may include use of these tools: (transparency)

A. The application blank:

1. Should be brief, in order not to discourage employees who are unaccustomed to doing a great deal of writing.
2. Should contain only items that, according to company experience, are correlated with job success; might include:

a. Physical specifications; e.g., "Must be able to lift 100 lbs." (May be determined by height, weight, physical problems questions).
b. Mental specifications; e.g., "Ability to read electrical circuits." (May be determined by education and/or previous experience questions).
c. Emotional, behavioral, and social specifications; e.g., "Must be able to handle customer complaints."

B. Employment tests:

1. Considerations for using tests:

a. Cost.
b. Time--short tests are generally preferred, to avoid boredom and fatigue.
c. Validity--does the test actually measure what it is supposed to measure?
d. Ease of administration and scoring.

2. Kinds of tests: (transparency)

a. Intelligence.
b. Dexterity.
c. Aptitude tests.
d. Personality.
e. Supervisory abilities.
f. Interest.

C. Checking references:

1. Verify by letter or telephone. Advantages of telephone:

   a. Quicker.
   b. More candid.

2. Questions to ask:

   a. When did the person start with the company and when did s/he leave?
   b. What were the specific job duties of the person?
   c. What is your rating of the job performance of the person in terms of volume and quality of work?
   d. Did the person have any promotions or demotions during the work period?
   e. What did you find was the most effective way of motivating this person?

D. Interview: (transparency)

1. Purpose of the interview: to determine the degree to which the applica possesses desired qualities and to select the candidate who will best advance the business' objectives.
2. Rules of interviewing:

   a. Use a comfortable, quiet setting where interruptions are unlikely.
   b. Clearly establish the objectives of the interview before beginning.
   c. Respect the interests and individuality of the interviewee. Be sensitive to his/her feelings; do not use trick questions or assume an attitude of superiority.
   d. Make the interviewee feel at ease.
   e. Encourage the interviewee to talk freely.
   f. Listen carefully and try to determine the interviewee's meaning. Don't be "turned off" by certain words.
   g. Avoid expressing personal views and opinions.
   h. Close the interview diplomatically. Give a decision, if possible, or indicate next steps to be taken by candidate.

3. Major areas to be covered in the interview:

   a. Tell me about your work history; how you got the jobs, the kinds of work you did and your reasons for leaving.
   b. What is most important to you in a job? What do you care least about in a job?
   c. What experience during your school days stood out as meaning the most to you?
   d. What do you believe to be your strong points as a person?
   e. What position do you want to hold ten years from now?
   f. Why should we hire you?

V. Training the new employee means:

A. Benefits to the company:

1. Increased productivity. Quantity and quality of output can be increased when new employees are instructed in specific job performance skills.
2. Heightened morale. The new employee will feel more at ease when s/he has general information on company policies, procedures, and rules. Complaints, absenteeism, and turnover will be reduced.
3. Reduced supervision. Greater independence is possible only when the employee is well-trained.
4. Reduced accidents, spoiled work, and damage to equipment.
5. Increased organizational stability and flexibility. The employee's value to the organization grows as s/he develops his/her ability to learn multiple skills.

B. Avoid common training errors:

1. Feeding too much at one time. Heaping details on the trainee will only result in confusion and discouragement.
2. Telling without demonstrating. Being strange to the environment, the trainee will find accurate visualization of the task based on verbal instructions alone very difficult.
3. Lack of patience. Impatience on the part of the trainer produces tension in the learner and tension slows learning.
4. Lack of preparation. Confusion is the result when the trainer has forgotten to have materials available or fails to present the job in logical sequence.
5. Failure to build in feedback. Job training requires effective two-way communication.
6. Failure to reduce tension. Again, tension inhibits learning.

C. Components of the good training program include: (transparency)

1. Get ready to receive the new worker:

a. Review work experience, education, and training.
b. Have an up-to-date description of the job or a list of duties and responsibilities available for discussion.
c. Have the workplace, equipment, and supplies ready.

2. Welcome the new worker:

a. Put him/her at ease.
b. Indicate relationship to new worker.
c. Assign a workplace and equipment.

3. Show genuine interest in the worker:

a. Discuss his/her background and interests.
b. Inquire about his/her housing situation.
c. Inquire about his/her transportation to and from work.
d. Inquire about any possible financial difficulties because of the pay lag, and suggest local sources of assistance.

4. Explain the work of the unit:

   a. Describe the function.
   b. Outline the organization.
   c. Indicate his/her position in the unit.
   d. Explain relation of work to that of other workers.
   e. Tell him/her to who s/he reports and who reports to him/her.

5. Introduce him/her to the chief of the unit and to co-workers:

   a. Indicate to each the new worker's duties.
   b. Explain duties of each person to whom introduced.
   c. Arrange for a co-worker to go to lunch with him/her the first day.

6. Show him/her the layout and available facilities:

   a. Explain layout of shop or office.
   b. Show him/her elevators, washroom, water fountain, and other facilities.

7. Explain rules and regulations:

   a. Hours of work.
   b. Punctuality and good attendance.
   c. Lunch periods.
   d. Rest periods.
   e. Use of telephone.
   f. Leave.
   g. Other shop or office practices and procedures (smoking, fire regulations, etc.)

8. Instruct him/her in the job or assign to a qualified instructor:

   a. Give step-by-step instruction.
   b. Explain quality and quantity work standards.
   c. Assign the workplace.
   d. Indicate availability of instructor for future assistance.
   e. Provide learning aids--samples of work manuals, job instruction, procedures, list of special technical terms, etc.
   f. Stress safe working habits.
   g. Stress security aspects of jobs.

9. Follow-up:

   a. Check frequently on progress.
   b. Encourage questions.
   c. Make corrections and give encouragement.

VI. Working conditions not only influence employees, they also make an impression on visitors. Some aspects of working conditions include:

A. Physical comforts. Details such as good lighting, height, construction, and placement of chairs and workbenches, etc. have a tremendous effect on accuracy of workmanship, output, use of floor space, and cleanliness.

B. Safety. Although OSHA regulations regarding freedom from recognized hazards may seem restrictive, and the concerned employer should appreciate

the need for safety education and protective equipment for his employees. No business is too small to have adequate first aid available and emergency numbers posted.

C. Aesthetics. Extras like carpeting or tile on the floors (where practical), attractive wall covering, etc. can also contribute to happier, more productive employees.

D. Employee services. In addition to fringe benefits, such things as locker facilities, soft drink dispensers, and a pleasant lunch room are part of favorable working conditions.

VII. Theories of motivation:

A. Maslow's hierarchy of human needs illustrates that people are motivated by a desire to satisfy primary needs, first of all; then, when basic needs are met, motivation comes from satisfaction of higher-level needs. The hierarchy includes: (transparency)

1. Physiological needs--The biological basics of food, shelter, rest, other physical necessities; for most workers, the paycheck enables the individual to purchase necessities.
2. Safety needs--Protection against danger and threat from the uncertainties of life; group insurance plans, for example, help offer security.
3. Social needs--Being part of a group, accepted, and respected by peers.
4. Esteem needs--Self-respect, recognition, achievement, status, and a sense of accomplishment which may be satisfied by meaningful work experiences.
5. Self-realization--The need for fulfillment of basic capabilities and potentialities, for being fully creative and fully occupied in doing a chosen task to the limit of capacity.

B. Herzberg's motivation-hygiene theory states that some aspects of the work situation (hygiene factors) merely keep employees from being dissatisfied rather than stimulating greater employee effort. Other factors (motivators) do create a supportive climate that encourages employee productivity and satisfaction: (transparency)

1. Hygiene factors:

a. Working conditions.
b. Money, status, and security.
c. Interpersonal relationships.
d. Supervision (technical competence of boss).
e. Company policies and administration.

2. Motivators:

a. Recognition, achievement.
b. Money (in some situations and to a certain degree only).
c. Challenging work.
d. Responsibility for work.
e. Opportunity for growth and advancement.

C. Maslow's theory and Herzberg's theory are complementary. (transparency) Also, both can be the basis for reward/punishment systems. For example,

status (such as the title "Assistant Manager") can be given as a reward or taken away as a punishment.

VIII. Although there are many factors which influence motivation, there are also some motivational devices which have proven effective in many situations:

A. Factors influencing motivation:

1. The person doing the motivating. Dynamic personality is often considered a positive force in motivating others, but greater emphasis should be placed on ability to identify and sincere desire to satisfy the other's needs.
2. The persons being motivated. Such individual factors as education, age, marital status, financial status, health, beliefs, etc., affect the potential for motivation within a person.
3. The devices of motivation. Whether financial or nonfinancial, abstract or concrete, immediate or future, motivators must be carefully chosen and used. Employees and supervisors may not place the same value on particular motivators. (transparency)
4. The environment. Company history, management attitudes, and community economic conditions are all examples of environmental factors that affect motivation.

B. Some effective motivational devices: (transparency)

1. Job enrichment--making work more interesting by expanding the scope of the job, adding variety of responsibilities, challenge, and a sense of accomplishment.
2. Management by objectives--employee determination of individual work goals and means of achieving those goals.
3. Job rotation--movement of personnel from one job assignment to another on a regular, orderly basis to increase work experiences and interest.
4. Participation--building employee pride and teamwork through management seeking advise, suggestions, and information from employees concerning ways in which work should be performed and problems should be solved.
5. Positive criticism--giving specific suggestions for improvement in a positive, supportive format.
6. Rewards and personal recognition given on the basis of performance.
7. Personal loyalty demonstrated by management for employees.
8. Communication--full information given to employees of company plans and open reception of employee grievances, problems, and concerns.
9. Elimination of dissatisfiers such as inequitable pay, unsatisfactory physical environment working conditions, etc.

IX. Communication is the manager's most important tool. Studies have shown that a minimum of 65%-70% of the supervisor's time is spent in communication.

A. Forms of communication include:

1. Written communications from management:

a. Job descriptions and procedural manuals or handbooks.
b. Newsletters.
c. Memos.

2. Written communications from employees:

   a. Reports.
   b. Suggestions.

3. Face-to-face communications (includes spoken and non-verbal expressions):

   a. Superior-subordinate.
   b. Committees.
   c. Informal communication ("the grapevine").

B. The communication process: (transparency)

1. The source wants to communicate an idea, thought, need, or information to another person.
2. The source encodes his/her ideas into symbols such as words, diagrams, etc.
3. The message is the encoded idea that the source will send to the other person.
4. The channel is the medium through which the message is sent. It may be spoken or written words, a pat on the back, etc.
5. The receiver is the person who receives the sent message.
6. The receiver decodes the message by envisioning an idea from meaning he has attached to the symbols used.
7. The receiver may respond to the message with feedback which indicates whether or not his/her understanding of the message coincides with the source's intended thought.
8. The message may be distorted by noise.

C. Barriers to communication (noises):

1. Differences in background experience, or attitudes which inhibit understanding the other's reasoning or feelings; e.g., a reference to "you guys" may be interpreted as casual friendliness or as a lack of respect, depending upon attitude.
2. People stereotypes which activate mental blocks and prejudices; e.g., the word "salesman" may cause immediate defensiveness against "pushy people trying to talk you into something."
3. Symbols that have different meanings for different people, e.g., when a repairman assures the client that repairs will be done "quickly" and "at reasonable cost", at exactly what time and cost will the item be ready?
4. Different vocabularies; in many fields jargon or abbreviations such as OSHA, FOB, EEOC, etc., are frequently used, but some receivers may not understand what is meant.
5. Lack of awareness of nonverbal symbols such as tone of voice, gestures, facial expressions, behavior, etc. A manager who growls at an employee because s/he is upset about some entirely unrelated problem will be communicating something he probably does not intend.
6. One-way-only communication when supervisors simply give orders and do not allow feedback.
7. Narrow, rigid viewpoints which cause the receiver to block out anything that doesn't fit in with his/her view.
8. The tendency to jump to conclusions.
9. Distractions from the environment, such as time pressures, physical discomfort, etc.

10. Lack of adequate planning as to who should communicate what and how it could most effectively be done.

D. Some tips for increasing communication effectiveness by better listening:

1. Prepare yourself to listen. Develop an attitude that in almost all messages there are likely to be ideas that can be used. Be interested, pay attention.
2. Listen nonevaluatively. Do not judge the message and impose your situation, behavior, or feelings on the other person. Overlook any distracting things about the way the message is being delivered.
3. Try to understand the other person's point of view or frame of reference. In summary:

a. With your head, listen to what is said.
b. With your heart, listen to what is said.
c. With your hands, listen by taking notes--when important to remember.
d. With your body, listen by reacting physically--with posture, gestures, nods.
e. With your voice, listen by asking questions and by responding with playback, words, or silence.

X. Delegation:

A. Reasons why managers should delegate:

1. You can't do everyone's job. Even if you are the most productive employee in the organization, it is not possible to work as efficiently as a group of employees working together.
2. Your job is to manage. Supervisors are responsible for management functions, not for operational activities.
3. Those close to a problem often make better decisions. Employees can often take immediate action and avoid a crisis build-up.
4. Delegation demonstrates trust of and respect for employees. This creates an atmosphere of participation and commitment to the organization.
5. Delegation is a step toward employee development. With supervisory support, employees can develop confidence and explore abilities.

B. Reasons why managers fail to delegate:

1. Fear of costly mistakes by subordinates for which the supervisor will be held responsible.
2. Desire for personal credit; fear of loss of prestige or status; fear that subordinates might perform too well and show up the supervisor.
3. Fear of losing control of an activity; reluctance to give up activities that a supervisor performs well.
4. Misjudgment of time; failure to plan work ahead.
5. Having no one to delegate to.

C. Delegation techniques:

1. Carefully select the tasks to be delegated. Choose tasks based on

your over-all plan. Assign as many tasks as you safely can; but avoid over-delegating to the point where employees are put in a continual sink-or-swim situation. Generally, delegate the routine matters.

2. Carefully select the person to whom you will delegate. Know subordinates' capabilities. Get their recommendations for solving problems and prepare them to be self-reliant before delegating assignments.
3. Turn over the assignment skillfully. Specify goals and objectives. Agree on performance standards. Give the employee all the training and assistance needed; but delegate according to the results desired, not according to the method to be used. The heart of successful delegation is allowing freedom to work independently.
4. Give sufficient authority to complete the task and let others know to whom the task has been delegated so that cooperation can be expected.
5. Expect and accept some mistakes, but don't snatch back the delegated task. Employees will not develop skills and will doubt the supervisor's sincerity if s/he takes over at the first sign of trouble.
6. Follow up. Take an interest in the progress of the assignment, but don't snoop. Call for progress reports and schedule reviews. Give appropriate rewards for successful completion of the work.

D. When delegation will not work:

1. When the employee is unwilling to accept responsibility.
2. When there is poor communication between the supervisor and employees, so that the employee is unable to understand what is expected of him/her.

XI. Communications outside the company itself are also of importance to the small business owner/manager:

A. Outside business communications usually have these three purposes:

1. Inquire--to solicit and acquire data.
2. Inform--to share data and achieve understanding.
3. Persuade--to establish or reinforce belief and action.

B. Questions that should serve as guides in communicating:

1. What does the customer (or business contact) need?
2. What can my company do to satisfy the customer's (or contact's) needs?
3. How should my message relate satisfaction of the need to what my company can provide?

C. Some principles of successful business communication:

1. Justification--what is your purpose in sending the message?
2. Goodwill--one primary purpose of any business is to develop a favorable impression of the business among its customers and other members of the business community; the tone of a message (either written or spoken) should convey courtesy, sincerity, and a willingness to serve.
3. Relevance--avoid distractions that are not related to the message you are trying to send.
4. Accuracy--be sure that the information you give is absolutely correct.

5. Clarity--Be sure that what you send is clear; this can be accomplished by planning the communication, defining, explaining, or describing when necessary, and being as concise as possible.

XII. Speaking to outside groups is often a difficult task: (transparency)

A. Speaking to outside groups, as opposed to those inside the business, means:

1. The audience may lack common interests.
2. More emphasis on formality is likely.
3. There is less opportunity for spontaneous communication.
4. There is a probability of wide influence and undivided attention.

B. Some necessities for any speaking, public or private:

1. Careful preparation for speaking.
2. Careful organization and wording of ideas.
3. Specific adaptation to audience, situation, and purpose.
4. Direct, natural and conversational delivery.
5. Clear, specific, understandable content.

XIII. Public relations:

A. The goal of public relations is to convince people that they should adopt a certain attitude or pursue a certain course of action. (Trying your product, for example.) This is accomplished by:

1. Attracting attention.
2. Winning belief.
3. Imparting understanding.

B. The public relations procedure: (transparency)

1. Internal research--Collect information and ideas from within the organization (yourself and your employees); "What is the message we want to send to the public?"
2. Integration with policy--Apply judgment to be sure every message furthers management purposes.
3. Preparation of the message--Use appropriate form (e.g. radio, newspaper, etc.) based on to whom the message is to be sent and the most effective means of reaching that target audience.
4. Communication--Deliver the message to the public concerned.
5. External research--Evaluate the extent to which the message has been received, the effect it has had, and the nature of the public's reaction.

C. Community relations techniques:

1. Contributions and fund drives. The budget should include provision for charitable contributions and civic projects. Personal time in the form of campaign leadership can also further community relations.
2. Civic improvements. Involvement in community educational or recreational facilities, service clubs, etc., give wide exposure to a company.

3. Speaker's bureau. Another good way of reaching the public is by having available several company officials who are willing to speak to local clubs, societies, and civic groups.
4. Advertising. A company can use advertising to sell a point of view as well as to sell merchandise.
5. Community open house. Inviting neighbors to see personally the people and machines that make up the organization can be a most successful public relations tool.
6. Plant tours for special groups. Such visits may give the company the opportunity to explain its operations or present its viewpoint directly to influential community citizens.
7. Publicity and press relations. A simple measure of how well a company is known in its home city is the frequency with which its name appears in the local newspapers or on the local TV or radio stations. A management official should be readily available to the press and should take the initiative in sending them newsworthy items.
8. Cooperation with schools. Assistance in vocational education programs and provision of scholarships are some of the ways a company can foster community relations through the schools.
9. Basis of good consumer relationships:

    a. Product value. Company reputation depends upon product features, design, sound performance, and adequate supply conveniently available at fair prices.
    b. Service values. A sound guarantee, accessible service from trained personnel, regular maintenance, and reliable parts at fair prices create consumer satisfaction.

XIV. Conducting a meeting skillfully involves:

A. Planning for the meeting:

1. Determine the purpose of the meeting and communicate it to the participants; have well-defined, clear goals.
2. Prepare the agenda.
3. Arrange for a comfortable, convenient meeting place.

B. Leading the meeting:

1. Set up rules needed to keep the meeting running smoothly, but not excessive controls.
2. Use time efficiently.
3. See that the purpose is accomplished by efficiently covering the agenda.
4. State issues clearly.
5. Monitor participation - Ask questions of those who are not participating adequately, prevent domination by other group members.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #1

JOB DESCRIPTION FORM

Position Title: Assistant Manager Under Supervision of: _____

Definition of Job Purpose:

To be a link between manager and other employees, responsible for seeing that policies are executed and services performed.

Definition of Job Duties:

1. Checking and marking.
2. Maintaining proper inventories.
3. Knowing specific duties of each employee under his supervision.
4. Supervising job training.
5. Customer relations.

Additional Responsibility Requirements:

1. Representing company at conventions, service clubs, etc.
2. Maintaining good employer-employee relations.

Extent and Limits of Decision-Making Authority Granted:

1. These are specified by manager.
2. Direct supervision of employees.

Working Conditions:

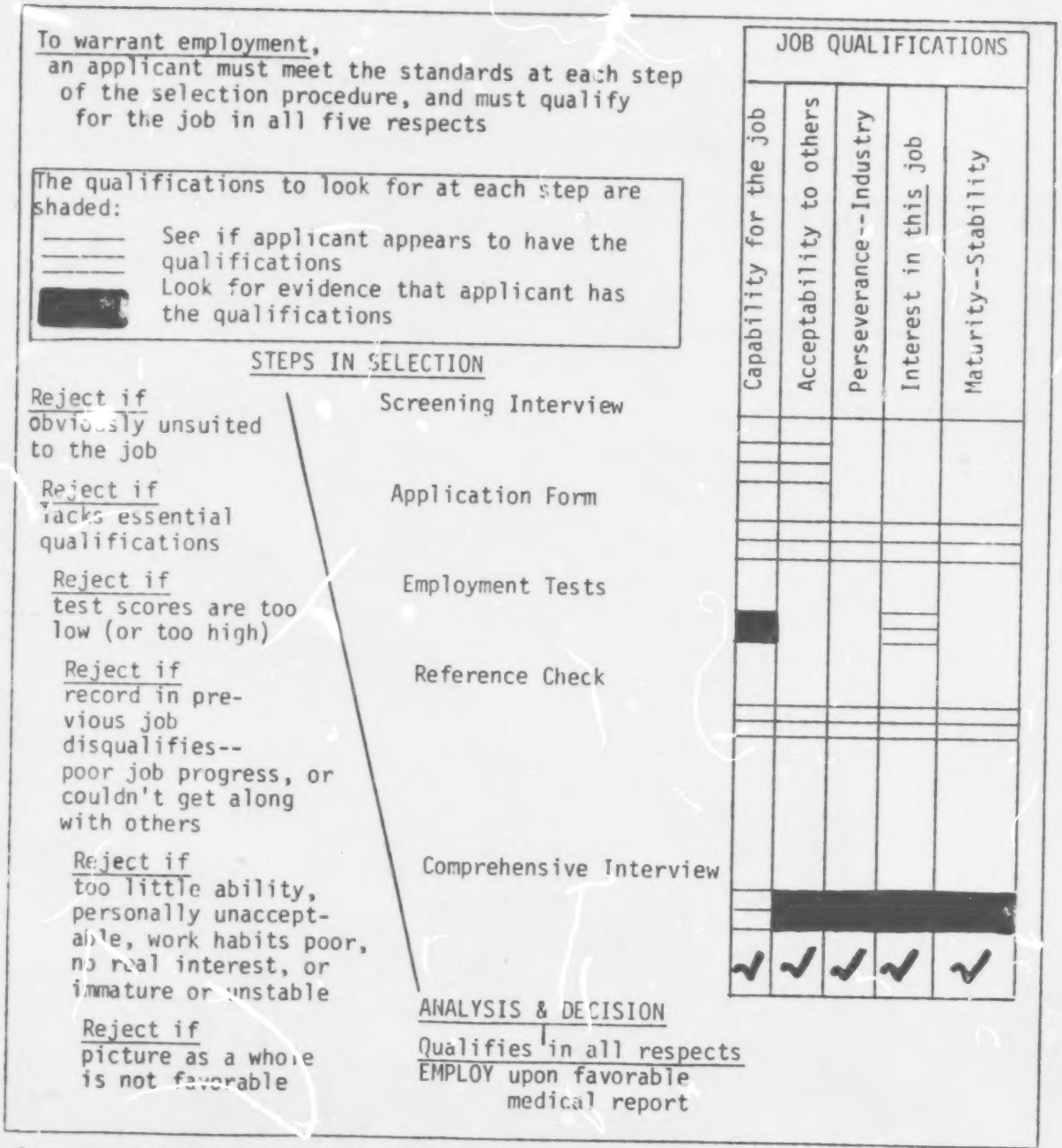
As many hours as are needed to fulfill job duties without neglecting family and community activities.

Source: Michael J. Jucius. Personnel Management, 8th ed. Homewood: Richard D. Irwin, Inc., 1975, P. 92.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #2

SUMMARY OF A SELECTION PROCEDURE


To warrant employment, an applicant must meet the standards at each step of the selection procedure, and must qualify for the job in all five respects
The qualifications to look for at each step are shaded:
See if applicant appears to have the qualifications
Look for evidence that applicant has the qualifications
STEPS IN SELECTION
JOB QUALIFICATIONS
Capability for the job
Acceptability to others
Perseverance--Industry
Interest in this job
Maturity--Stability
Screening Interview
Reject if obviously unsuited to the job
Application Form
Reject if lacks essential qualifications
Employment Tests
Reject if test scores are too low (or too high)
Reference Check
Reject if record in previous job disqualifies--poor job progress, or couldn't get along with others
Comprehensive Interview
Reject if too little ability, personally unacceptable, work habits poor, no real interest, or immature or unstable
Reject if picture as a whole is not favorable
ANALYSIS & DECISION
Qualifies in all respects
EMPLOY upon favorable medical report

Source: Adapted from Milton M. Mandell, The Employment Interview, Research Study no. 47 (New York: American Management Association). in Michael J. Jucius, Personnel Management, 8th ed. Homewood: Richard D. Irwin, Inc., 1975, p. 124.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #3

SOME COMMERCIALLY AVAILABLE STANDARDIZED TESTS COMMONLY USED IN PERSONNEL TESTING

Name of Test	Example of jobs for which used
INTELLIGENCE	
Wonderlic Personnel Test	Clerical, factory, maintenance, and sales jobs
Adaptability Test	
Wesman Personnel Classification Test	
Concept Mastery Test	Managerial or executive job candidate
General Aptitude Test Battery	United States Employment Service programs
Nonreading Aptitude Test Battery	
Employee Aptitude Survey	All types of jobs from executive to unskilled
Flanagan Industrial Kit	Wide variety of jobs--battery include 18 short tests covering 18 different job elements
DEXTERITY	
Stromberg Dexterity Test	Foundry moulders, punch press operators, assemblers
Purdue Pegboard	Radio tube mounters, production jobs
O'Connor Finger and Tweezer Dexterity Tests	Instrument assembly
CLERICAL APTITUDE	
Minnesota Clerical Test	Office jobs
SRA Typing Skills	Typists
The Short Employment Tests	Office jobs
MECHANICAL APTITUDE	
Test of Mechanical Comprehension	Variety of engineering and mechnical jobs
Revised Minnesota Paper Form Board Test	Mechanical shop work, drafting, desig
PERSONALITY	
Gordon Personal Profile and Inventory	Office workers, computer programmers, others
Edward Personal Preference Schedule	
Guilford-Zimmerman Temperament Survey	Insurance salespersons, office worker
Thematic Apperception Test	Executives
California Personality Inventory	Managers and supervisors
CREATIVITY AND JUDGMENT	
AC Test of Creative Ability	Engineers
Owens Creativity Test for Machine Design	Engineers
Watson-Glaser Critical Thinking Appraisal	Executives
SUPERVISORY AND MANAGERIAL ABILITIES	
How Supervise?	Managerial and supervisory jobs
Supervisory Practices Test	
Management Aptitude Inventory	
Leadership Opinion Questionnaire	

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #3 (continued)

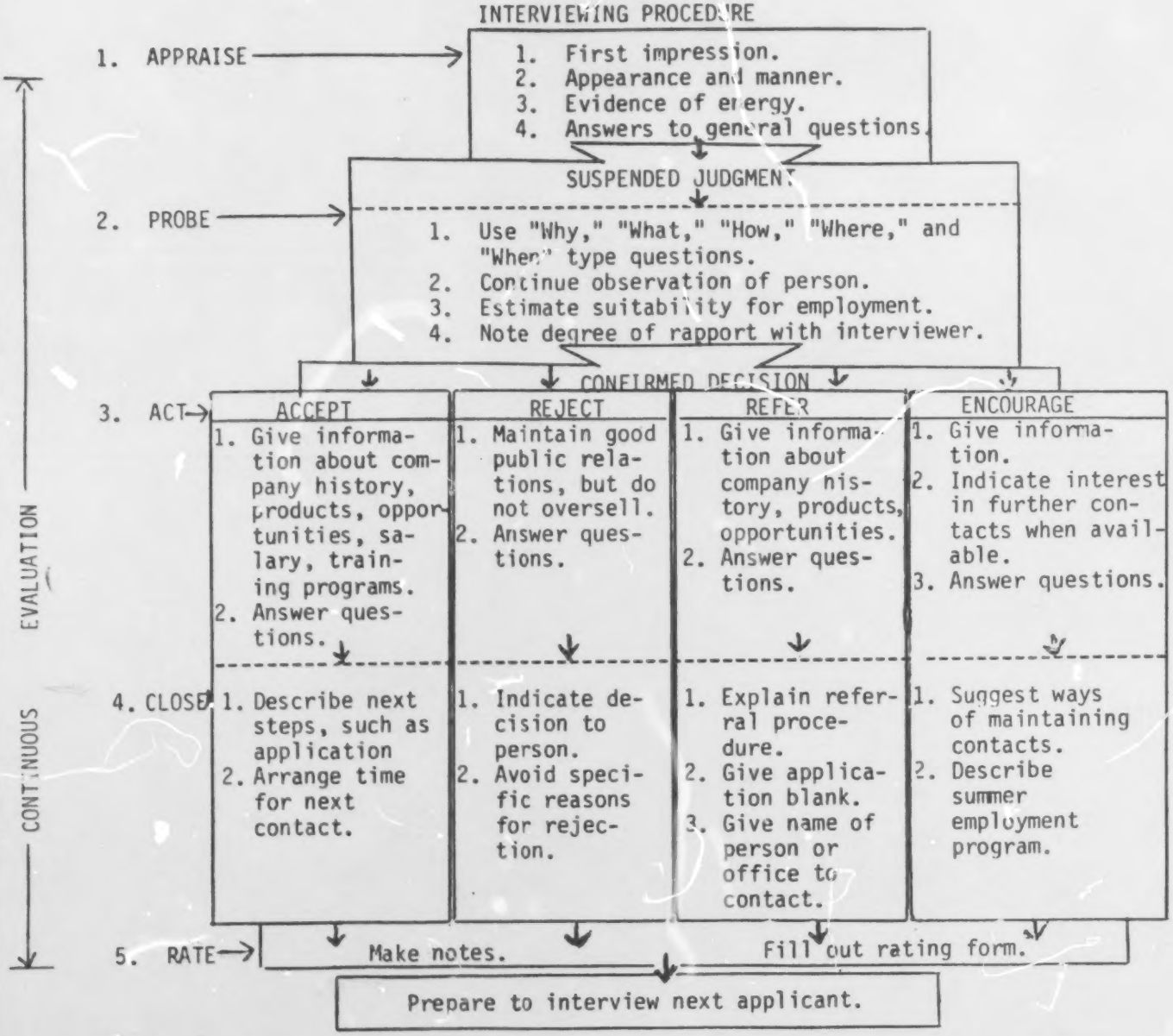
SOME COMMERCIALLY AVAILABLE STANDARDIZED TESTS COMMONLY USED IN PERSONNEL TESTING

Name of Test	Example of jobs for which used
INTEREST	
Strong Vocational Interest Blank	Administrative and sales jobs
Minnesota Vocational Interest Inventory	Various skilled jobs

Source: Herbert J. Chruden and Arthur W. Sherman, Jr. Personnel Management. 5th ed. Cincinnati: South-Western Publishing Co., 1976, p. 150.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #4


INTERVIEWING PROCEDURE
1. APPRAISE
1. First impression.
2. Appearance and manner.
3. Evidence of energy.
4. Answers to general questions.
SUSPENDED JUDGMENT
2. PROBE
1. Use "Why," "What," "How," "Where," and "When" type questions.
2. Continue observation of person.
3. Estimate suitability for employment.
4. Note degree of rapport with interviewer.
CONFIRMED DECISION
3. ACT
ACCEPT
1. Give information about company history, products, opportunities, salary, training programs.
2. Answer questions.
REJECT
1. Maintain good public relations, but do not oversell.
2. Answer questions.
REFER
1. Give information about company history, products, opportunities.
2. Answer questions.
ENCOURAGE
1. Give information.
2. Indicate interest in further contacts when available.
3. Answer questions.
4. CLOSE
1. Describe next steps, such as application
2. Arrange time for next contact.
1. Indicate decision to person.
2. Avoid specific reasons for rejection.
1. Explain referral procedure.
2. Give application blank.
3. Give name of person or office to contact.
1. Suggest ways of maintaining contacts.
2. Describe summer employment program.
5. RATE
Make notes.
Fill out rating form.
Prepare to interview next applicant.
EVALUATION
CONTINUOUS

Source: Michael J. Jucius, Personnel Management. 8th ed. Homewood: Richard D. Irwin, Inc., 1975, p. 154.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #5

SUPERVISOR'S CHECKLIST FOR INDUCTING THE NEW WORKER

Worker's Name _____ Grade _____ Title _____

Date Reports for Work _____ Organizational Unit _____

Purpose: This list provides you with an outline to follow in welcoming and systematically inducting new workers. The induction period is your greatest opportunity to win the worker's loyalty, stimulate interest, and get him/her into satisfactory production. Check each item to be sure you have welcomed the new worker properly and have given all the information that s/he should have.

	DATE COMPLETED
1 GET READY TO RECEIVE THE NEW WORKER.	
( ) Review work experience, education, and training.	_____
( ) Have an up-to-date description of the job or a list of duties and responsibilities available for discussion.	_____
( ) Have the workplace, equipment, and supplies ready.	_____
2 WELCOME THE NEW WORKER.	
( ) Put him/her at ease.	_____
( ) Indicate relationship to new worker.	_____
( ) Assign a workplace and equipment.	_____
3 SHOW GENUINE INTEREST IN THE WORKER.	
( ) Discuss background and interests.	_____
( ) Inquire about his/her housing situation.	_____
( ) Inquire about transportation to and from work.	_____
( ) Inquire about any possible financial difficulties because of the pay lag, and suggest local sources of assistance.	_____
4 EXPLAIN THE WORK OF THE UNIT.	
( ) Describe the function.	_____
( ) Outline the organization.	_____
( ) Indicate position in the unit.	_____
( ) Explain relation of work to that of other workers.	_____

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TRANSPARENCY MASTER #5 (continued)

SUPERVISOR'S CHECKLIST FOR INDUCTING THE NEW WORKER

( ) Tell him/her to whom s/he reports and who reports to him/her. _____

5 INTRODUCE HIM/HER TO THE CHIEF OF THE UNIT AND TO CO-WORKERS.

( ) Indicate to each of the new worker's duties. _____

( ) Explain duties of each person to whom introduced. _____

( ) Arrange for a co-worker to go to lunch with him/her the first day. _____

6 SHOW THE LAYOUT AND AVAILABLE FACILITIES.

( ) Explain layout of shop or office. _____

( ) Show elevators, washroom, water fountain, and other facilities. _____

7 EXPLAIN RULES AND REGULATIONS.

( ) Hours of work. _____

( ) Punctuality and good attendance. _____

( ) Lunch period. _____

( ) Rest periods. _____

( ) Use of telephone. _____

( ) Leave. _____

( ) Other stop or office practices and procedures (smoking, fire regulations). _____

8 INSTRUCT HIM/HER IN THE JOB OR ASSIGN TO A QUALIFIED INSTRUCTOR.

( ) Give step-by-step instruction. _____

( ) Explain quality and quantity work standards. _____

( ) Assign the workplace. _____

( ) Indicate availability of instructor for future assistance. _____

( ) Provide learning aids--samples of work manuals, job instruction, procedures, list of special technical terms. _____

INDEPENDENT BUSINESS OWNER/MANAGERS
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TYPE III

TRANSPARENCY MASTER #5 (continued)

SUPERVISOR'S CHECKLIST FOR INDUCTING THE NEW WORKER

( ) Stress safe working habits. _____

( ) Stress security aspects of job. _____

9 FOLLOW-UP.

( ) Check frequently on progress. _____

( ) Encourage questions. _____

( ) Make corrections and give encouragement. _____

Source: Lewis R. Benton, Supervision and Management. New York: McGraw-Hill, 1972, p. 178-180.

INDEPENDENT BUSINESS OWNER/MANAGERS
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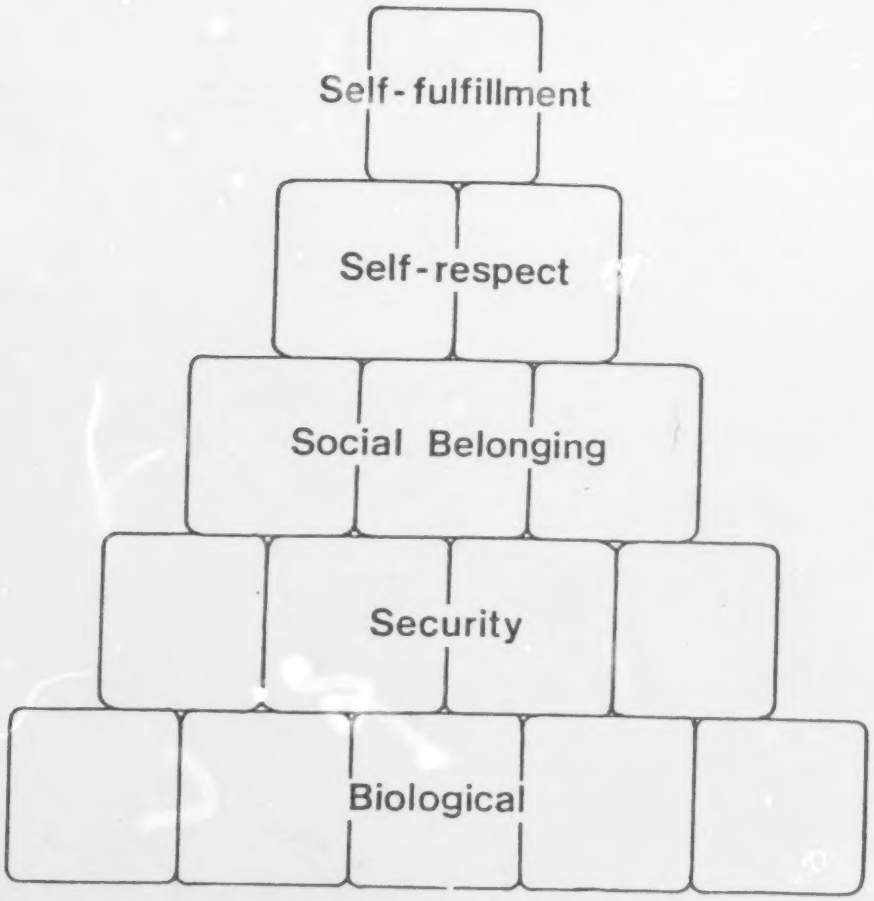
UNIT III

TRANSPARENCY MASTER #6

ORDER OF PRIORITY OF HUMAN NEEDS



Source: Haimann, Theo. Supervision: Concepts and Practices of Management Cincinnati: South-Western Publishing Co., 1977, p. 56.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #7

HERZBERG'S MOTIVATION THEORY

HYGIENE FACTORS	MOTIVATORS
Working Conditions	Recognition
Money, Status, Security	Opportunity for Advancement
Interpersonal Relationships	Challenging Work
Supervision	Responsibility for Work
Company Policies and Administration	Opportunity for Growth and Advancement

Source: Preston, Paul. Management for Supervisors. Englewood Cliffs: Prentice-Hall, 1978, p. 197.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
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TRANSPARENCY MASTER #8

MASLOW	HERZBERG
Physiological	Money
Security	Security, Working Conditions
Social	Status, Interpersonal Relationships, Supervision, Company Policies, and Administration
Esteem	Recognition, Challenging Work, Responsibility for Work, Opportunity for Growth, Advancement, and Development
Self-Actualization	

Source: Preston, Paul. Management for Supervisors. Englewood Cliffs: Prentice-Hall, 1978, p. 198.

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A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #9

HOW SUPERVISORS AND WORKERS RATED TEN JOB CONDITIONS

Job Conditions	Workers' Rating	Supervisors' Rating
Full appreciation for work done	1st	8th
Feeling "in" on things	2nd	10th
Sympathetic understanding of personal problems	3rd	9th
Job security	4th	2nd
Good wages	5th	1st
Interesting work	6th	5th
Promotion and growth with company	7th	3rd
Management loyalty to workers	8th	6th
Good working conditions	9th	4th
Tactful disciplining	10th	7th

Source: Haimann, Theo. Supervision: Concepts and Practices of Management. Cincinnati: South-Western Publishing Co., 1977, p. 64.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
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TRANSPARENCY MASTER #10

Source, Terry, George R. Supervision. Homewood: Richard D. Irwin, 1978, p. 39.

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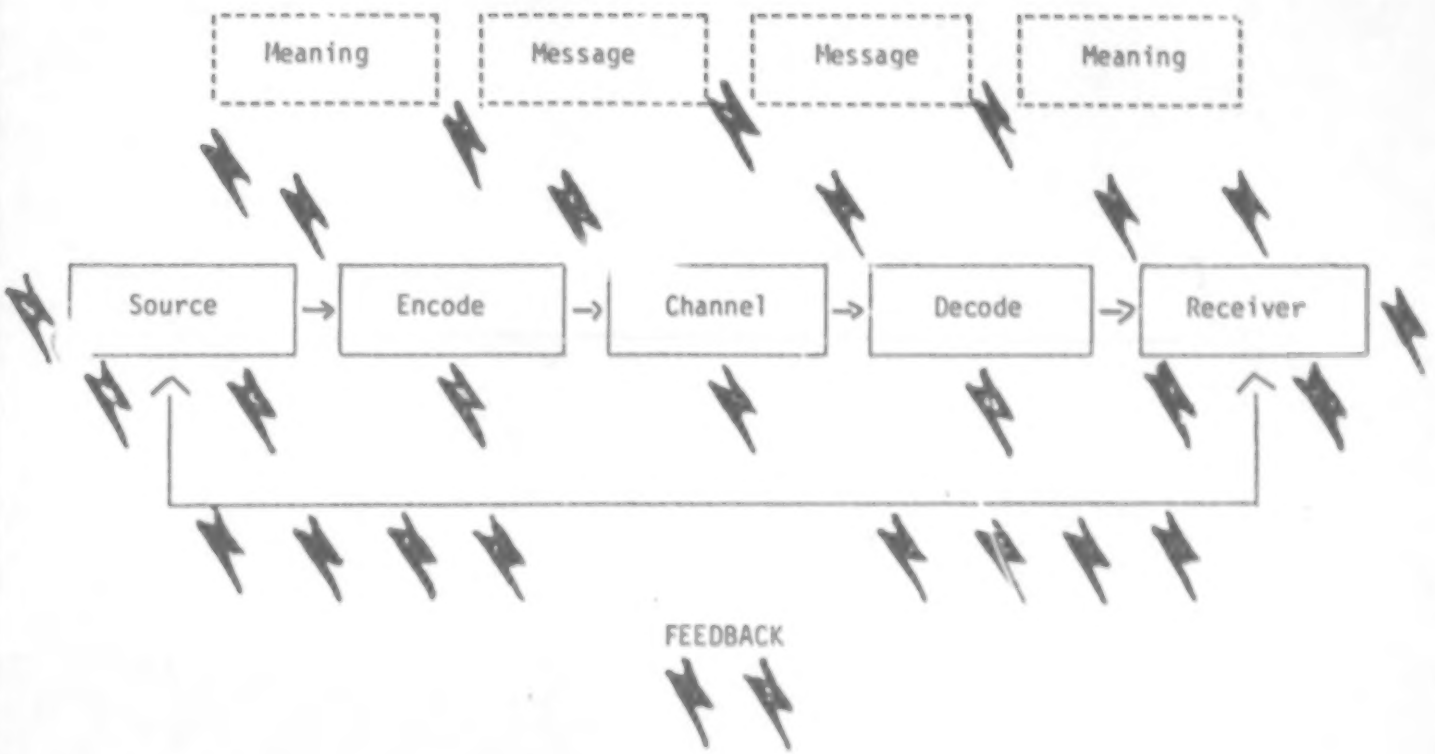
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #11

THE COMMUNICATION PROCESS

Idea
Thought
Need
Information



The process of human communication involves the transfer of meaning through the encoding of a message by a source who sends it through a channel to a receiver. The receiver decodes the message and provides feedback for the original source. The small lightning bolts represent noise, which is present at all stages of the communication process.

Source: Newport, M. Gene (ed.) Supervisory Management: Tools and Techniques. St. Paul: West Publishing Co., 1976, p. 158.

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UNIT III

TRANSPARENCY MASTER #12

TABLE OF COMPARATIVE CHARACTERISTICS

General Differences

Public (Outside the Business)	Private (Inside the Business)
Audience lacks bond of common interest of company operation with speaker.	Audience has bond of common interest of company operation with speaker.
Likely heterogeneity of qualities of members of audience.	Likely homogeneity of qualities of members of audience.
More emphasis on formality likely.	More emphasis on informality likely.
More emphasis on rituals and conventions of public address likely.	Less emphasis on rituals and conventions of public address likely.
Lesser opportunity for spontaneous and intimate communication likely.	Greater opportunity for spontaneous and intimate communication likely.
Probability of wider influence and effect likely.	Probability of restricted influence and effect likely.
Relatively undivided attention from members of formal audience.	Greater chance for distraction of attention from members of more informal audience.

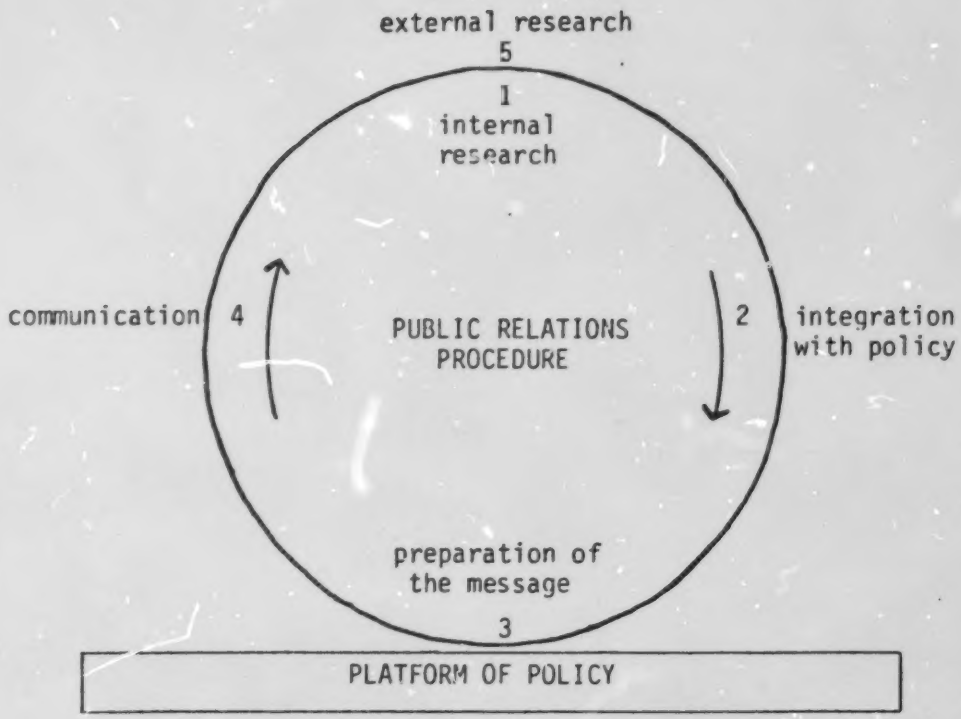
General Similarities

Necessity for careful preparation for speaking.
Necessity for careful organization and wording of ideas.
Necessity for specific adaptation to audience, situation, and purpose.
Necessity for direct, natural, and conversational delivery.
Necessity for clear, specific, and understandable content.

Source: McLaughlin, Ted. Communication. Columbus: Charles E. Merrill Books, 1964.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

TRANSPARENCY MASTER #13



In the light of the effect indicated by external research, there is always the constant likelihood that more internal research will be needed, and thus the circle continues. A circle never ends, nor does the public relations of a living organization.

This simple diagram should make it clear that public relations cannot be equated with communications, which forms part, but not all, of the process.

Source: Stephenson, Howard (ed.) Handbook of Public Relations. New York: McGraw-Hill, 1971, p. 19.

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A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

ASSIGNMENT SHEET #1

Take this self-quiz to evaluate your communication effectiveness:

In carrying out communication, do you:

	Yes	No	Don't know
1. Determine the precise purposes of the communication; do you have something to say?	____	____	____
2. Include your objectives in your message; no bias or prejudice is included?	____	____	____
3. Evaluate the types and amount of information required to reach your objective?	____	____	____
4. Give your communication clarity; is it briefly and simply stated?	____	____	____
5. Select the words and language needed to meet requirements of the situation and the receiver?	____	____	____
6. Employ gestures, drawings, and visual effects to aid in conveying your message?	____	____	____
7. Encourage feedback so that truly two-way communication is present?	____	____	____
8. Make it easy for the receiver to ask questions?	____	____	____
9. Create the correct mood, attitude, and impression for the reaction you want?	____	____	____
10. Strive to understand what the receiver's reply really meant?	____	____	____
11. Listen and "hear the receiver out," even though you anticipate what will be said. Did you cut the discussion short assuming the receiver would say or do the right thing?	____	____	____
12. Provide the receiver a definite course, action, or belief to follow as a result of the communication?	____	____	____
13. Find yourself falling asleep when listening to a speech, even though you're sitting upright and paying attention?	____	____	____

	Yes	No	Don't know
14. Find that you get quickly bored and lose interest when a person talks in a dull voice or in an unfamiliar accent?	_____	_____	_____
15. Listen only for facts?	_____	_____	_____
16. Let your mind wander and daydream when you should be listening?	_____	_____	_____
17. Read things that are easy to read and avoid difficult readings; "turn off" television programs or speakers who are "over your head?"	_____	_____	_____
18. When listening to someone make a presentation, make an outline (either in your head or by taking notes)?	_____	_____	_____

Source: Preston, Paul. Management for Supervisors. Englewood Cliffs: Prentice-Hall, 1978.

INDEPENDENT BUSINESS OWNER/MANAGERS
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ASSIGNMENT SHEET #2

Read the following situation:

Supervisor Joe has taken a deep look at himself and his business and has decided he must delegate more to his employees for the following reasons: (1) He has been working seventy hours a week. (2) The pressure of trying to get everything done has put him on edge with some of the staff. (3) He has not been sleeping well because of worry. Last night he spent three hours formulating a list of responsibilities he might delegate to his three employees. The list is as follows:

1. A weekly report that takes fifty minutes to prepare. This report could easily be delegated to Mrs. R., but it would reveal certain department figures that have not been revealed to employees in the past. There is nothing secret about the data, but Joe feels he might lose control if everybody knows what goes on.

2. A weekly fun job that Joe has always enjoyed doing. Miss Q. would love to do the job (she would probably do it better than Joe), but Joe wants to keep it because it keeps him closer to his employees and facilitates communication. This job usually takes about one hour.

3. A very routine weekly stock or supply room count that takes an hour and a half. Joe has delegated this job before, but he always winds up taking it back, because the grumbling from the employee disturbs him more than doing the job himself. Besides, sometimes the count is wrong and he ends up doing the job himself anyway.

4. A special routine meeting each month which many businesses already delegate to a subordinate. It would be excellent training for Mr. G. to have this assignment. Joe has kept it to himself, however, because he is afraid that something will happen at the meeting that he won't know about. The meeting usually lasts two hours.

Now decide which things Joe should delegate. Give reasons for your choices.

Source: Chapman, Elwood N. Supervisor's Survival Kit. 2nd ed. Chicago: Science Research Assoc., 1975.

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UNIT III

ASSIGNMENT SHEET #3

Read the following case study and answer the questions:

THE REAL WORLD

"Recognition? You gotta be kidding. Why, my truckers are the best paid in the area. They're not here long enough to get any recognition. If they're not on the road hauling their rigs and making dough, they're in some bar getting rid of it as fast as they can spend it. Recognition and motivation is just a lot of hooey. I drove trucks in my day, and we did it for cold, hard cash. You don't baby trucking people. You pay 'em and leave 'em alone!

"My management philosophy? It's simple. It's based on the facts of life. I hire the best men in this area, and I pay 'em top dollar. I'm not about to waste my time and energy worrying about theory nonsense some professor spouts off. Those guys just never met truckers."

1. Do you agree with this philosophy?
2. Is it a realistic viewpoint?
3. Are there viewpoints this supervisor is overlooking? Do people want only money?

Source: Preston, Paul. Management for Supervisors. Englewood Cliffs: Prentice-Hall, 1978.

INDEPENDENT BUSINESS OWNER/MANAGERS
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ASSIGNMENT SHEET #4

PUBLIC OPINION FORMATION

Hodges Paper Corporation

Read the following case study and decide what can be done to correct the problem situation:

The Hodges Paper Corporation, Chicago, Illinois, manufactures and distributes annually $300 million worth of shipping containers, paper, and fiberboard. Eight mills are located in six states in the United States, in addition to mills in England, France, and Italy. More than 10,000 men and women are employed by the corporation in its domestic and foreign plants and sales offices.

The public relations of the corporation is administered by a headquarters staff of 30, organized in five sections: advertising, publicity, community relations, photography, and research and statistics. Each section is headed by a manager who is responsible to the vice president in charge of public relations.

In the eight communities in the United States where Hodges' mills are located, the corporation, in common with other paper producers, is confronted with two public relations problems, air pollution and stream pollution. One Hodges mill, located in a Virginia community of 60,000, disposed of its waste in a river that runs through the city. Public opinion in the community was highly critical of the company for contaminating the local water supply.

The corporation recognized that it had an obligation and a responsibility to the community, as well as to its 2,000 employees living in the area, to correct the difficulty. Accordingly, Hodges invested more than $3 million in installing a waste-recovery process, but in so doing created an unforeseen air-pollution problem of community wide magnitude.

When the waste-recovery plant began operation, the odor from the mill became more noticeable in the community because it was changed in character by the new recovery process. The mill odor overrode most other community odors, and when the numerous community odors mingled, the paper-mill odor was the most distinguishable.

Many people in the mill community believed that Hodges was wholly to blame for the community's air-pollution problem. Public opinion was highly critical of the company and expressed it in angry telephone calls, threatening letters, and other forms of harassment. The editorial columns of the daily papers condemned the company for the offensive odors that polluted the air.

The city in which the mill is located has had a long-standing odor and smog problem. The area is plagued with frequent air inversions. A concentration of industry in the river valley in which the city is situated aggravates the difficulty. The management of the Hodges mill recognizes that the company is involved in the air-pollution problem and should take some action to solve the difficulty.

What can the Hodges organization do to improve community relations?

Source: Canfield, Bertrand R. Public Relations. 5th ed. Homewood: Richard D. Irwin, 1968.

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A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

ASSIGNMENT SHEET #5

MEETING EVALUATION

Select a meeting you want to evaluate. Circle the number on the scale you believe best expresses the typical level of that behavior or characteristic. You may want to survey the entire meeting group, or only the leader, or a couple of other participants.

To establish your own meeting model, you can place another symbol--a check mark, perhaps--at the number on each item as you believe it should be to best fulfill the meeting needs of your group.

MEETING CHARACTERISTICS AND BEHAVIORS

1. Goals

0	1	2	3	4	5
None set; irrelevant or trivial items only.					Well-defined, clear, sharpened by the group.

2. Roles of Participants

0	1	2	3	4	5
Not known what to contribute, extent of involvement.					Meeting output known, limits known.

3. Value of Meeting in Reaching Goals

0	1	2	3	4	5
Goals best achieved outside of a meeting.					This meeting and this group best for purpose.

4. Priorities Set

0	1	2	3	4	5
None set, all have equal weight.					Clear delination of relative importance.

5. Sense of Time

0	1	2	3	4	5
Much time wasted on trivia.					Best time-fit between group focus and issue needs.

6. Straight Talk

0	1	2	3	4	5
Much fuzzy talk, undefined motives.					Issues set up; positions and wants clearly stated.

7. Closure of Topics

0	1	2	3	4	5
Topics end but decisions and action left unstated.				All debate ends with a conclusion, decision, or assignment.	

8. Leadership Assumed

0	1	2	3	4	5
Left in the air, with goals and roles not in focus.				Leader or led assume as needed.	

9. Participant Commitment

0	1	2	3	4	5
Each marks time, stays aloof, protects self-interest only.				Each supports group effort, accepts decisions.	

10. Participant Utilization

0	1	2	3	4	5
Some dominate continually; quiet ones not tapped.				Each shares skill and insight as appropriate.	

11. Procedures and Rules

0	1	2	3	4	5
Many applied to excess, with high need to control behavior.				A few used to set boundaries, keep on track.	

12. A Setting for Human Habitation

0	1	2	3	4	5
Uncomfortable, "cold" environment; distracting, dull setting.				Basic air, heat, comfort needs met; seating arrangement facilitates contact.	

Source: Dunsing, Richard J. You and I Have Simple Got to Stop Meeting This Way. AMACOM, 1977.

INDEPENDENT BUSINESS OWNER/MANAGERS
A COMPANY IS KNOWN BY THE PEOPLE IT KEEPS
UNIT III

REVIEW SHEET

Check what you have learned about personnel management, communications with employees and with business associates, public relations, and conducting meetings, by completing the following review sheets. Then check your answers with the information sheet materials. If you get all fourteen right, you're doing a terrific job! Twelve right is good; ten right is fair, and if you get less than eight right, you need some review on the principles.

1. Match the following terms and their definitions:

_____ A. Communication	1. A process by which supervisors entrust certain employees with the accomplishment of specific work objectives.
_____ B. Delegation	2. The act of stimulating someone to take a desired course of action.
_____ C. Motivation	3. The management function which evaluates public attitudes, identifies the policies and procedures of the organization with the public interest, and executes a program of action.
_____ D. Public relations	4. The transmission and reception of a message that travels between two or more persons.

2. List the three questions which are the basis for effective hiring practices:

   a.

   b.

   c.

3. Describe the three steps to be taken in recruiting employees.

   a.

   b.

   c.

4. Discuss four tools that may be used in the hiring process:

   a.

   b.

   c.

   d.

5. List five benefits to the company of training new employees, five common training errors, and seven components of a good training program:

   benefits:

   a.

   b.

   c.

   d.

   e.

   training errors:

   a.

   b.

   c.

   d.

   e.

   components of a good program:

   a.

   b.

   c.

   d.

   e.

   f.

   g.

6. List four aspects of working conditions that influence employees:

   a.

   b.

   c.

   d.

7. Compare and contrast the motivation theories of Maslow and Herzberg:

8. Discuss four factors that influence motivation and seven effective motivational devices:

   factors:

   a.

   b.

   c.

   d.

   devices:

   a.

   b.

   c.

   d.

   e.

   f.

g.

9. Discuss communication, especially three forms of communication, the eight steps in the communication process, eight barriers to communication, and three tips for increasing communication effectiveness through listening:

forms:

a.

b.

c.

steps:

a.

b.

c.

d.

e.

f.

g.

h.

barriers:

a.

b.

c.

d.

e.

f.

g.

h.

tips:

a.

b.

c.

10. List five reasons why managers should delegate, five reasons why managers fail to delegate, five delegation techniques, and the two instances when delegation will not work:

reasons for delegating:

a.

b.

c.

d.

e.

reasons for failing to delegate:

a.

b.

c.

d.

e.

delegation techniques:

a.

b.

c.

d.

e.

when delegation will not work:

a.

b.

11. List the three purposes of outside business communications, the three questions that should serve as guidelines in those communications, and five principles of successful business communications:

purposes:

a.

b.

c.

questions:

a.

b.

c.

principles:

a.

b.

c.

d.

e.

12. List the four characteristics of outside groups and the five necessities of public speaking:

characteristics:

a.

b.

c.

d.

necessities:

a.

b.

c.

d.

e.

13. Discuss public relations, specifically the three means of accomplishing the goal of public relations, the five components of the public relations procedure, and seven community relations techniques:

means of accomplishing the goal:

a.

b.

c.

procedure:

a.

b.

c.

d.

e.

techniques:

a.

b.

c.

d.

e.

f.

g.

14. Discuss the planning and leading components of conducting a meeting skillfully.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

UNIT OBJECTIVES

This unit will give the independent business owner/manager an opportunity to increase management skills in regard to accounting, budgeting, computers, market analysis, and advertising. In studying these five topics, specific techniques for each will be presented as well as opportunities to participate in actual practice activities.

SPECIFIC OBJECTIVES

Upon completion of this unit, the participant should be able to:

1. Match definitions with the following terms: accounting, advertising, balance sheet, break-even point, budget, computer, hardware, income statement, software.
2. List the three things upon which successful financial management depends.
3. List the three capital needs for small businesses and the four basic means of generating those funds.
4. Demonstrate an understanding of financial statements and ratios by completing a given problem, and an understanding of cash flow, break-even analysis and earning power, by diagramming those processes.
5. Discuss inventory control, specifically five inventory costs, four rules for good inventory control, and three inventory control systems.
6. Discuss three guidelines for credit sales and three collection procedures.
7. List the taxes a business collects as an agent and those imposed upon the business, and some possibilities of avoiding unnecessary taxation.
8. Demonstrate an understanding of depreciation calculations by completing a given problem.
9. List three reasons for using budgets and five steps in preparing a budget.
10. Discuss four possibilities of beginning computer usage as a small business, five classifications of computers, and five reasons why owner/managers use computers.
11. Discuss four factors affecting market potential and three ways in which the type of good sold affects market strategy.
12. List two purposes of advertising, five limitations of advertising, and five steps in planning your advertising.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

SUGGESTED ACTIVITIES

I. Instructor:

A. Provide participants with objective sheet.
B. Provide participants with information and assignment sheets.
C. Discuss objectives.
D. Discuss information and assignment sheets.
E. Discuss review sheets.

II. Participants:

A. Read objectives.
B. Study information sheets.
C. Complete assignment sheets.
D. Check that objectives can be achieved.
E. Complete and check review sheets.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

A. Objectives
B. Information sheets
C. Transparency masters:

1. Balance sheet (two illustrations)
2. Income statement (two illustrations)
3. Financial ratios (two illustrations)
4. Cash flow diagram
5. Earning power diagram
6. Break-even point
7. Merchandise inventory illustration
8. Collection of bad debts
9. Bad debt ratios of various businesses
10. Depreciation example
11. Location analysis
12. Determining potential share of the market
13. Advertising media and percentages

D. Assignment sheets:

1. Financial ratios
2. Location rating
3. Advertising case study

E. Review sheets

II. References:

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REFERENCE CODE:

A--accounting
B--budgeting
C--computers
D--market analysis
E--advertising

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

INFORMATION SHEET

I. Terms and definitions:

A. Accounting--A system for collecting, summarizing, analyzing, and reporting, in monetary terms, information about an organization.
B. Advertising--Mass communication of information intended to persuade buyers to buy, so as to enable the business to maximize dollar profits.
C. Balance sheet--A statement showing how a business is doing as of a particular date; it gives a history of what is owned by the business (assets) and what portion of those assets are owed by the business (liabilities) and the owner's claim to the assets of the business (owner's equity or capital). Balance sheet terms:

1. Asset--An economic resource that benefits future operations.
2. Current asset--An economic resource expected to be realized in cash, sold or consumed in one year or within the normal operating cycle.

   a. Cash--Funds immediately available for use, such as in a checking account, cash register or petty cash.
   b. Accounts receivable--Amounts due from customers for products and services provided on credit.
   c. Notes receivable--Loans to individuals or businesses that will be due in a short time, evidenced by a promissory note.
   d. Inventory--Items held for sale or consumption in the production of goods in the normal operation of the business.
   e. Prepaid expense--An asset such as insurance, whose usefulness will expire in a short time.

3. Property, plant, and equipment (fixed assets)--Those assets owned by the business that have a relatively long life or permanent nature and are not for sale but are used in the production and sale of other goods and services.
4. Intangible asset--Assets having no physical substance, such as patents or franchises.
5. Sundry assets--Often used as a miscellaneous or "catchall" category for assets that don't belong in another classification.
6. Liability--An economic obligation or debt.
7. Current liability--An economic obligation or debt that must be paid within one year or the normal operating cycle.

   a. Accounts Payable--Amounts owed to suppliers, wholesalers, and other business creditors for purchases made on credit.
   b. Notes Payable--Loans from individuals, businesses, and banks that will be due in a short time, evidenced by a promissory note.

8. Long-term liability--An economic obligation or debt that isn't due within one year or the normal operating cycle--such as mortgages and long-term notes payable.
9. Owner's Equity (capital or net worth, proprietor's or partner's equity)--The owner's investment of capital in the business of the excess of total assets over total liabilities.

D. Break-even point--When sales reach a dollar volume equal to all expenses incurred in attaining that level of sales; beyond this point, the business has the potential to make a profit on additional sales.
E. Budget--A plan expressed in quantitative (normally financial) terms.
F. Computer--A group of machines whose capabilities include the ability to read in information automatically, to process this according to a program of instructions which it holds in a memory, and to communicate the results of its work automatically to the outside world; the system must always include a central processor with a small but fast internal memory and a control console for use by its operator, with extra units selected by the user as required.
G. Hardware--The computer machinery itself.
H. Income statement--A report matching the amount of money earned from the sale of goods or from services performed, against the expense incurred in earning that revenue for a specific period of time; if revenues are greater than expenses a profit is made; if expenses are greater than revenues, a loss is incurred. Income statement items:

1. Revenue--Income from the sale of products or services, rent or interest earned, gains on asset disposal.
2. Expense--Expenditures made and resources used to generate revenue.
3. Cost of goods sold--A category of expense giving the value of the goods sold at cost.
4. Gross profit--Revenues less cost of goods sold.
5. Operating expenses--Those expenses such as selling, distribution, administrative and general expenses, that are incurred in the normal operation of the business.
6. Operating income--Income generated from the normal operations of a business or gross profit less operating expenses.
7. Net income or profits--Revenue less all expenses, or operating income less any expenses not previously deducted--such as unusual losses or taxes. Also called profits.

I. Software--Consumable supplies for programming and other human effort which makes the machinery operate as required.

II. Successful financial management depends on:

A. Careful planning of future needs for funds, both short term and long term.
B. Acquiring the needed funds from the most economical mix of sources.
C. Control--comparing budgeted and actual figures to provide insight for improving in the future.

III. Inadequate capital is one of the most common causes of small business failure.

A. Capital needs can be generally divided into:

1. Promotional expenses--usually occurring particularly when the business is just beginning, include fees for financial and legal assistance, options on land or buildings.
2. Working capital needs--includes cash reservoir for day-to-day operations and unexpected contingencies, investment in inventories, and investment in receivables.
3. Capital for fixed assets.

B. Four basic means of generating funds for small business:

1. Trade credit--purchase of goods, supplies, and equipment on credit from suppliers; a short-term type of funding.
2. Loans--from commercial banks, other financial institutions, or interested individuals; can be for a longer term, usually require some pledged collateral.
3. Equity financing--selling ownership interest in the firm to someone as a partner or stockholder; can be most risky because original owner may lose control of the business.
4. Reinvestment of equity--plowing profits back into the business; most common and least risky because only the owners are concerned.

IV. Some accounting management essentials include:

A. Objectives of an accounting system:

1. Provide information on the business's financial position, stability and solvency, in the form of a balance sheet.
2. Provide information on the business's profitability as a result of operations, in the form of an income statement.
3. Provide information required for filing federal, state, and local tax reports.
4. Facilitate analysis and comparison of financial data with past results and industry standards.
5. Facilitate forecasting and budgeting.
6. Provide a basis for obtaining credit.
7. Safeguard assets--reduce chances for theft or fraud.
8. Highlight waste, inefficiency, excessive expenses and other problem areas requiring the manager's attention.

B. An understanding of financial statements and ratios.

1. Balance sheet--of primary interest in this report is working capital (calculated as total current assets minus total current liabilities) since it reflects recent market conditions; balance sheet figures also provide data for tests of liquidity and solvency. (transparency)
2. Income statement--in addition to profit or loss amount shown, trend percentages for various periods can be helpful in calling attention to large proportionate changes. (transparency)
3. Financial ratios--essentially, a means of comparison; they can be grouped into four categories: (transparency)

   a. Tests of profitability. An example is Return on Sales; calculated as: Net Income divided by Net Sales equals Return on Sales.

b. Tests of liquidity which evaluate the company's ability to meet its current obligations. Most commonly used is the current ratio, calculated as: Current Assets divided by Current Liabilities equals Current Ratio. Others include the collection period, calculated as Sales divided by Accounts Receivable divided into 360 equals Average Collection Period; and inventory turnover, calculated as Cost of Goods Sold divided by Average Inventory equals Merchandise Turnover.
c. Tests of solvency which indicate a company's ability to meet the interest costs and repayment schedules associated with its long-term obligations. The most important ratio in this category is the Worth to Debt Ratio, calculated as Owner Equity divided by Total Liabilities.
d. Overall measures. An example of this is the rate earned on resources, calculated as Net Income divided by Owner Equity equals Return on Investment.

C. Cash flow is also of primary interest to the small business owner/manager. (transparency)

1. The most regular flow is in working capital--from cash into inventories, from inventories into receivables, and from receivables back to cash.
2. Other inflows come primarily from:

a. Owners.
b. Creditors.

3. Other outflows are for:

a. Fixed assets.
b. Cash payments such as interest expense, taxes, owner withdrawals.

4. The objective is to synchronize cash inflows and outflows to find the combination of net operating margin and turnover of operating assets for the greatest earning power.

D. Earning power (transparency) has been defined as the return per dollar of operating assets each time it goes through the cash flow cycle:

1. Achieving maximum earning power is not easy because margin and turnover tend to move inversely.
2. For example, raising the price on goods will make the operating margin greater, but it may also make turnover go down.

E. A break-even analysis is another way of studying the factors that influence profit. (transparency)

1. Effect of volume--if the volume is not sufficient to produce a revenue capable of meeting all fixed and variable expenses (the break-even point) then there is no profit but rather a loss; additional volume beyond the break-even point has a marked effect on profitability.

2. Effect of fixed costs--a company should examine with care any move that results in an increase in fixed costs since the break-even point and the amount of profit earned for a given sales volume will be affected.
3. Effect of variable costs--variable cost increases definitely decrease profit and, since they can be more easily controlled than fixed costs can, they represent the area where cost-cutting is likely to occur first.
4. Effect of price--a change in dollar sales volume may be accomplished either by producing a greater number of units and selling at the original price or by producing the same number of units and selling at a higher price. The determination must be as to how much price can be increased without causing decreased sales volume.

V. Inventory control is also an important part of good financial management.

A. The major inventory costs, other than the inventory itself, include:

1. Storage.
2. Spoilage and/or obsolescence.
3. Insurance.
4. Handling.
5. Interest.

B. Rules for good inventory control:

1. Concentrate your efforts on those items that are most important to your business. The Pareto principle again applies: 80% of your inventory will be the "trivial many" and will only account for 20% of your sales volume, while 20% is the "vital few" and accounts for 80% of the sales; determination of those "vital few" is on the basis of cost, availability, and demand.
2. Beware of stocking more items than needed. Small business managers tend to overstock to avoid ordering worries and often forget the enormous amounts of money being tied up unnecessarily.
3. Perfection in the supply of inventory items is the goal. Even though it is never completely attainable, you should try never to run out of anything and at the same time never have anything left over and never have to pay high prices because of buying in small quantities. (transparency)
4. Since 25% of any inventory is waste due to seasonality, poor quality, or simply poor choice, dispose of those items rather than storing them. Contrary to popular belief, inventory costs do not end once the product is on the shelf.

C. Inventory control systems:

1. Personal observation by the manager and estimates as to which items are moving and need to be reordered; not recommended because it is not a very accurate system.
2. Physical check--a deliberate count of all merchandise on hand, usually conducted annually or semiannually.
3. Perpetual inventories--records kept of each item as it is purchased and sold; usually limited to high value items due to time and expense of maintaining records.

VI. Credit collections also form a part of sound financial management.

A. Guidelines for credit sales:

1. Thoroughly evaluate the credit applicant. Use the four C's of credit:

a. Character--willingness to pay.
b. Capital--ability to pay.
c. Capacity--general capabilities.
d. Conditions--of the economy in general.

2. Establish a credit limit.
3. Establish a thorough and accurate recordkeeping system.

B. Collection procedures:

1. Use a systematic approach, applied consistently.
2. Promptness is essential. 90% of debts two months overdue are collected while only 60% of those six months overdue are collected. (transparency)
3. Some specific steps to take:

a. Customer invoice sent with the goods, informing of exact amount of total charges and due date.
b. Statement of account sent on first day of month as a payment reminder, with terms of payment prominently printed.
c. Collection letter which lets debtor know bill must be paid but also retains customer goodwill.
d. Telephone contact, where some direct answer will be required.
e. Personal contact, often effective but expensive.
f. Collection agency.

4. Be prepared to write off a certain amount of bad debts, but become concerned when your percentage of bad debts is higher than that of other similar businesses. (transparency)

VII. Taxes are also financial considerations:

A. A business is both an agent and a debtor of the government in the matter of taxation.

1. Those taxes it collects as an agent include:

a. Income taxes withheld from employee's earnings.
b. Social Security tax (FICA) liability of employees.
c. Sales tax imposed on consumers by state and local governments.

2. Those taxes imposed upon business include:

a. Payroll tax expenses associated with employee earnings:

1. FICA--an amount equal to the tax on employees' earnings.
2. FUTA--unemployment taxes imposed by federal and/or state.

b. Income tax on both the state and federal level.
c. Excise tax--imposed on certain occupations or for the sale and use of some items.
d. State and local taxes such as real estate taxes, personal property taxes, and license fees.

B. Tax planning to avoid unnecessary taxation requires the advice of an accountant or lawyer. However, some possibilities include:

1. Keeping net income as low as possible to avoid the increasing percent levied in each higher tax bracket.
2. Avoiding "double" taxation (first against corporation income and then against shareholder's income) which occurs in the corporate form of business.
3. Legitimately diverting business income into the expenses of salaries or fees that may accrue to the benefit of the taxpayer. Family partnerships may accomplish this.
4. Converting ordinary income into capital gains which will be taxed at a lesser rate than ordinary income.
5. Combining the choice of legal form and the firm's operational pattern to permit some discretion as to when income is taken out of the business.

VIII. Depreciation calculations are usually made in one of the following ways: (transparency)

A. The straight-line method. The simplest and most practical method of computing, as follows: Original cost of equipment less trade-in or scrap value equals amount to be depreciated which is then divided by number of years of estimated life to equal depreciation per year.
B. The declining balance method. This method allows heavier depreciation in the early years of the equipment's life which is particularly desirable when there is a high rate of obsolescence. The rate used cannot be more than double the straight-line rate, according to the Internal Revenue Service. Thus, using the same equipment from the above example, 20% of the total amount to be depreciated could be taken in the first year, then 20% of the balance remaining each successive year.

IX. Budgeting is an important part of planning for profits, as well as the break-even analysis and ratio analysis already discussed.

A. Reasons for using budgets:

1. It is more than speculation; it is a workable pattern to be followed. Managerial decisions should be based on expected expenditures and expected profits. Opportunities can be identified and evaluated, and potential problems can be avoided. Future financial needs can be forecast.
2. Efficient or inefficient use of resources is revealed, and thus the budget is a means for self-evaluation and a measurement of progress.
3. It places an obligation upon the enterprise to maintain adequate financial records that can be tied in with the budget.

B. Steps in preparing a budget:

1. Set guidelines. The budget is intended to implement major policy decisions and to carry out the long-range plans of the business owner.
2. Make the sales estimate. A statistical forecast can be made on the basis of an analysis of general business conditions, market conditions, comparison of previous years' sales, and the estimate of the owner.
3. Prepare an initial budget, showing the anticipated revenues and costs associated with each product or service. Estimating expenses is absolutely essential.
4. Review the budget in light of previous experience and make any necessary adjustments.
5. Use the budget; compare actual figures with budgeted figures frequently.

X. Use of the computer in small business recordkeeping:

A. Most small businesses would probably start out with devices to record some data which is then mailed to a data processing center for actual printout production. These include:

1. Coding on cash register tapes--information on inventory and accounts receivable can be recorded as a code at the point of sale.
2. Coding on adding machine tapes--use of reference numbers for ledger accounts can greatly reduce the amount of time required to make entries since the data center can use the tape to produce printed journals, ledger, and financial statements.
3. Packaged programs are also available for both accounts receivable and inventory management.
4. Cost for use of such a service for a business with $100,000 annual sales would average half of one percent of gross sales in processing fees, plus lease fees for equipment.

B. Business interested in purchasing their own computer systems should know that computer systems are generally classified by size (cost):

1. Large-scale computer systems--usually incorporate smaller peripheral systems for use in data preparation for input and in the printing of data output to conserve very fast computing capabilities; rent for over $20,000 per month.
2. Medium-range computer systems--includes most of the more widely used systems; rent for $5,000 to $20,000 per month and still have quite fast computational speed.
3. Small-sized computer systems--often of a punched-card orientation; rent for $1,000 to $5,000 per month.
4. Desk-sized computer systems--include some of the more sophisticated accounting equipment; rent is usually in the $300 to $1,500 monthly range.
5. Minicomputers--may serve as a terminal device or data concentrators which process some types of data but which can also serve to feed data to large-scale systems; usually not available for rental, purchase price is less than $25,000.

C. Some reasons why owner/managers use computers:

1. Reduce clerical labor expense; meet clerical labor shortages.
2. Reduce space and overhead expense.
3. Reduce supplies expense.
4. Reduce inventory carrying expense; improve purchasing practices.
5. Shorten processing time; speed the flow of money into an organization.
6. Improve operating and budgetary control which permits management to allocate fixed sums for expenditure and to monitor these in detail.
7. Improve customer service.
8. Attain prestige and a progressive image.
9. Prepare required governmental reports.

XI. Analyzing market potential and strategies:

A. Market potential depends upon evaluation of such factors as: (transparency)

1. General community conditions--including industries, growth trends, diversification, permanency, etc.
2. Trade area population--as to age, purchasing power, range of employment.
3. Competition--as to quality and quantity.
4. Site/location--accessibility, traffic flow, plant itself, competitor location. You should consider changing your location if:

   a. Growth in population and trading area is not benefiting the business.
   b. Business operations show that the enterprise is now established and capable of growth beyond the opportunities at the present site.
   c. Other site development and available locations provide opportunities not previously available.
   d. Upgrading of the present site by sizable capital expenditures to achieve proper operating environment may be better accomplished elsewhere.
   e. Relocation may eliminate the possibility of competition's gaining increased advantages for the available market.
   f. Locational change may be a stimulus to accomplish a variety of improvements in business operations that would otherwise be delayed.

B. One way to estimate your share of the potential market is as follows: Population of the trade area times per capita disposable income times the percent of disposable income spent for your line of goods equals total potential for the area. Subtract your competitors' sales from the total and the remainder is the potential available to you, plus whatever you might be able to draw away from competitors. (transparency)

C. Strategies for attracting customers depends also on the type of good being sold:

1. Convenience goods are advertised nationwide and customers will buy them frequently, giving little thought to where they are purchased; therefore, you must be where the people are.
2. Shopping goods have substantial cost and are usually purchased only after both quality and cost comparisons are made; therefore, advertising may be more important than location.
3. Specialty goods--cost and location are not factors because of the unique characteristics of the product; customers go out of their way to purchase them, so again advertising is more important than location.

XII. Advertising:

A. Purposes of advertising:

1. Promote the goods and services of the firm:

a. Attract new customers--about 18% of the population moves annually.
b. Maintain present volume of patronage--the National Retail Merchants Association reports that a store annually loses between 20 and 25% of its customers.
c. Promotion of a special offer or special sale.
d. Promote greater use of products--stress variety of ways a product may be used.
e. Introduce new products or services.

2. Create goodwill for the firm.

B. Limitations of advertising:

1. No amount of advertising will force people to buy things they don't want.
2. No amount of advertising will overcome poor service or inferior products.
3. Advertising will not aid in selling overpriced merchandise.
4. Advertising cannot produce dramatic results immediately.
5. Effectiveness will be severely curtailed if it contains false or misleading statements.
6. Value will be diminished if it is poorly timed or improperly prepared.

C. Planning your advertising:

1. Plan what to say in your advertisement:

a. Make your ads easily recognizable with a consistent style.
b. Use a simple layout.
c. Use dominant illustrations.
d. Get the main benefit to the reader; customers want to know, "What's in it for me?" so emphasize the reason why they should buy that particular product.
e. Give complete information such as model, sizes, colors, etc.
f. State price or range of prices.
g. Specify branded merchandise.

h. Be sure to include store name and address. You will never attract new customers if they can't find the store.

2. Schedule advertising according to heaviest shopping days, based on an analysis of customers.
3. Choose the media which will be most effective, again based on an analysis of customers. Some possibilities include:

   a. Handbills--low cost and may be distributed in selected areas; however, many people may throw them away without reading them.
   b. Magazines and publications of special programs, such as sport events, school activities, etc.--usually read in leisurely fashion, but reach the market relatively infrequently.
   c. Newspapers--flexible and timely as ads can be changed on short notice; give an intense coverage in a local market; circulation costs per prospect are low; life of the ad is very short.
   d. Direct mail--the most personal and selective; quite costly.
   e. Television--probably the most versatile; products can be demonstrated as well as explained; extremely expensive; relatively short exposure time.
   f. Radio--impression made through the ear, which can be either an advantage or disadvantage.
   g. Outdoor--low cost and has potential of reaching almost entire population; message must be brief and not detailed.

4. Cost of advertising should usually be calculated as a percentage of sales. (transparency)
5. Avoid some common errors in advertising:

   1. Personal preferences--the small business owner/manager may think s/he is fully aware of all the advertising possibilities in the community and completely overlook those s/he does not personally prefer thus missing some potential customers.
   2. Reliance on media representatives--too many small businesses do not ask questions or even proofread and approve advertisements to correct errors before they appear.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #1

BALANCE SHEET

This is how the business looks on a specific date.

ASSETS

What the business itself owns.

LIABILITIES

This side of the balance sheet shows the claims on the assets—by both creditors and owners of the business. The claims of creditors are debts of the business—the LIABILITIES. The owner's claim is the investment in the business—the NET WORTH.

CURRENT ASSETS: In varying states of being converted into cash—within the next 12 months.

CASH: Money on hand, in the bank.

ACCOUNTS RECEIVABLE: What the customers owe the business for merchandise or services they bought.

INVENTORY: Merchandise on hand:
1) ready to be sold
2) in some stage of production
3) raw material

CURRENT LIABILITIES: Debts owed by the business to be paid within the next 12 months.

NOTES PAYABLE: IOU Bank or Trade Creditors.

ACCOUNTS PAYABLE: IOU Trade & Suppliers.

INCOME TAXES: IOU Government.

FIXED ASSETS: Used in the operation of the business. Not intended for resale.

REAL ESTATE: Land and buildings used by the business. Listed at original cost.

LEASEHOLD IMPROVEMENTS: Permanent installations—remodeling or refurbishing of the premises.

MACHINERY, EQUIPMENT, VEHICLES: Used by the business. Listed at original cost.

Less Accumulated Depreciation: These assets (except land) lose value through wear, tear and age. The business claims this loss of value as an expense of doing business. The running total of this expense is the accumulated depreciation.

NET FIXED ASSETS: Cost of fixed assets less depreciation = Present Value.

LONG-TERM LIABILITIES: Debts owed by the business to be paid beyond the next 12 months.

MORTGAGE: On property.

NET WORTH

Owner's (or stockholders') claim on the assets of the business; the investment; equity in the business.

For Proprietorship or Partnership:
CAPITAL: Owner's original investment plus any profit reinvested in the business.
For Corporation:
CAPITAL STOCK: Value assigned to the original issue of stock by the directors of the corporation. If the stock sold for more than the assigned value, the excess will show as....
SURPLUS PAID IN: The difference between assigned value and selling price of the original issue of stock. (The subsequent selling price of stock does not change assigned value.)
RETAINED EARNINGS: Profits reinvested in the business AFTER paying dividends.

BALANCE SHEET EQUATION:
ASSETS = LIABILITIES + NET WORTH

Source: Walker, Jenepher (ed.) "Understanding Financial Statements," Small Business Reporter. San Francisco: Bank of America, 1974.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #1 (continued)

WILSON COMPANY
BALANCE SHEET
DECEMBER 31, 1979

ASSETS			
Current Assets			
Cash		$ 4,000	
Accounts Receivable		5,000	
Notes Receivable		500	
Inventory		9,800	
Prepaid Insurance		200	
Supplies on hand		300	
Total Current Assets			$ 19,800
Property, Plant and Equipment			
Store fixtures	$ 2,100		
Less: Accumulated Depreciation	800	$ 1,300	
Delivery Equipment	$ 8,000		
Less: Accumulated Depreciation	3,000	5,000	
Office Equipment	$ 2,400		
Less: Accumulated Depreciation	1,200	1,200	
Total Property, Plant and Equipment			7,500
Total Assets			$ 27,300
LIABILITIES AND OWNER'S EQUITY			
Current Liabilities			
Accounts Payable		$ 6,000	
Notes Payable		1,000	
Total Current Liabilities			$ 7,000
Long-term Liabilities			
Mortgage Payable			4,000
Owner's Equity			
Thomas Wilson, Capital			16,300
Total Liabilities and Owner's Equity			$ 27,300

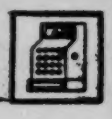
INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #2

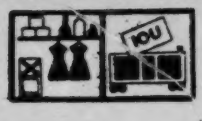
INCOME STATEMENT

Also called Profit & Loss Statement; Statement of Income and Expenses.
Here are the results of the business operation over a period of time.

SALES

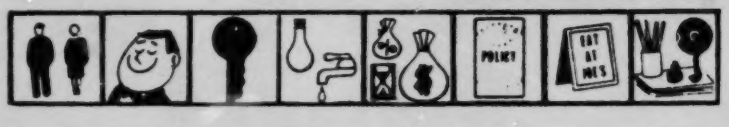


COST OF SALES



GROSS PROFIT

EXPENSES



NET PROFIT Before Taxes (or Loss)

TAXES

NET PROFIT After Taxes

THIS IS WHAT'S LEFT FOR:
- Debt repayment
- Withdrawal by owner
- Dividends to stockholders
- Reinvestment in the business

Source: Walker, Jenepher (ed.) "Understanding Financial Statements," Small Business Reporter. San Francisco: Bank of America, 1974.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #2 (continued)

WILSON COMPANY
INCOME STATEMENT
FOR THE MONTH OF DECEMBER, 1979

Revenue				
Sales				$62,700
Less: Sales Returns and Allowances			$ 300	
Sales Discounts			900	1,200
Net Sales				$61,500
Cost of Goods Sold				
Inventory (December 1)			$ 8,000	
Add: Net Purchases				
Purchases		$42,000		
Less: Purchase Returns and Allowances	$1,000			
Purchase Discounts	800	1,800		
		$40,200		
Add: Transportation In		600	40,800	
Cost of Goods Available for Sale			$48,800	
Less: Inventory (December 31)			9,800	
Cost of Goods Sold				39,000
Gross Profit on Sales				$22,500
Operating Expenses				
Selling Expenses				
Salesperson's Salaries		$ 8,000		
Delivery Expenses		3,620		
Advertising		250		
Depreciation on Delivery Equipment		100		
Total Selling Expenses			$11,970	
Administrative Expenses				
Rent Expense		$ 2,400		
Office Salaries		2,000		
Utilities Expense		580		
Supplies Used		50		
Total Administrative Expenses			5,030	
Total Operating Expenses				17,000
Operating Income				$ 5,500
Less Taxes on Operating Income				1,500
Net Income for December				$ 4,000

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #3

RATIOS

CURRENT RATIO

How Calculated: Divide Current Assets BY Current Liabilities.
What it shows: How the business can meet its current debt. Popular thought is that the higher the ratio, the better shape the business is in. However, a high ratio, of itself, does not tell: 1) whether cash is being used to best advantage; 2) the distribution of current assets--receivables may be too high or inventory may be too high.

For example:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$\frac{21,000}{7,000}$ = 3:1 current ratio

PROFIT ON SALES

How Calculated: Divide Net Profit (before taxes) for period BY Sales for period.
What it shows: What part of every sales dollar is profit. Higher percentage means greater efficiency of operation.

For example:

$$\text{Return on Sales} = \frac{\text{Net Income}}{\text{Net Sales}}$$

$\frac{5,000}{60,000}$ = 8% return on sales

WORTH TO DEBT RATIO

How Calculated: Divide Net Worth BY Total Debt (current liabilities + long-term liabilities).
What it shows: What percentage of the total money invested in the business is the owner's; what percentage was contributed by creditors. The higher the ratio, the more money the owner has in the business and the safer any creditors. (They are safer because more owner's equity is there to cushion creditors against a loss). However, it may also show that the owner is too conservative; unwilling to take any risks; is not using funds to the best advantage; is not realizing the maximum potential of the business.

For example:

$$\text{Worth-to-Debt Ratio} = \frac{\text{Owner Equity}}{\text{Total Liabilities}}$$

$\frac{16,000}{12,000}$ = 4:3

INVENTORY TURNOVER

How Calculated: Divide Cost of Goods Sold BY Inventory.
What it shows: How many times the inventory turns--or "sells out" during the year. Normally, a high turnover rate means salable, fresh and liquid inventory. Too slow turnover means too much inventory for the sales capacity of the business. However, too fast turnover can indicate a hand-to-mouth existence easily upset by sales drop-off--the business is buying today what it is selling today; paying for today out of today's sales.

For example:

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$\frac{42,000}{12,000}$ = 3.5 times

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #3 (continued)

RECEIVABLES TURNOVER

How Calculated: Divide Annual Sales BY Accounts Receivable.
What it shows: How fast the business is collecting from customers. The higher the turnover, the faster the collecting.

The average number of days it takes to collect the accounts receivable can be calculated: Divide the turnover rate into 360. The more days, the more chance of delinquent accounts.

For example:

$$\text{Average Collection Period} = \frac{\text{Sales}}{\text{Accounts Receivable}}$$

$\frac{60,000}{5,000} = 12$; $\frac{360}{12} = 30$ days

SALES TO WORKING CAPITAL

How Calculated: Net Sales Divided BY Working Capital (current assets less current liabilities).
What it shows: How many dollars of sales the company makes for eve dollar of working capital it has. This ratio can be of great value when the business is expanding. I helps to determine how much more working capital will be necessary to support higher sales.

PROFIT TO NET WORTH

How Calculated: Divide Profit BY Net Worth.
What it shows: Return on investment. What yield--or "interest rate"--the investment in the business is getting; percentage of investment that is being returned yearly through profit. Divide this percentage into 100 to see how many years it will take to get back the total investment in the business.

For example:

$$\text{Return on Investment} = \frac{\text{Net Income}}{\text{Owner Equity}}$$

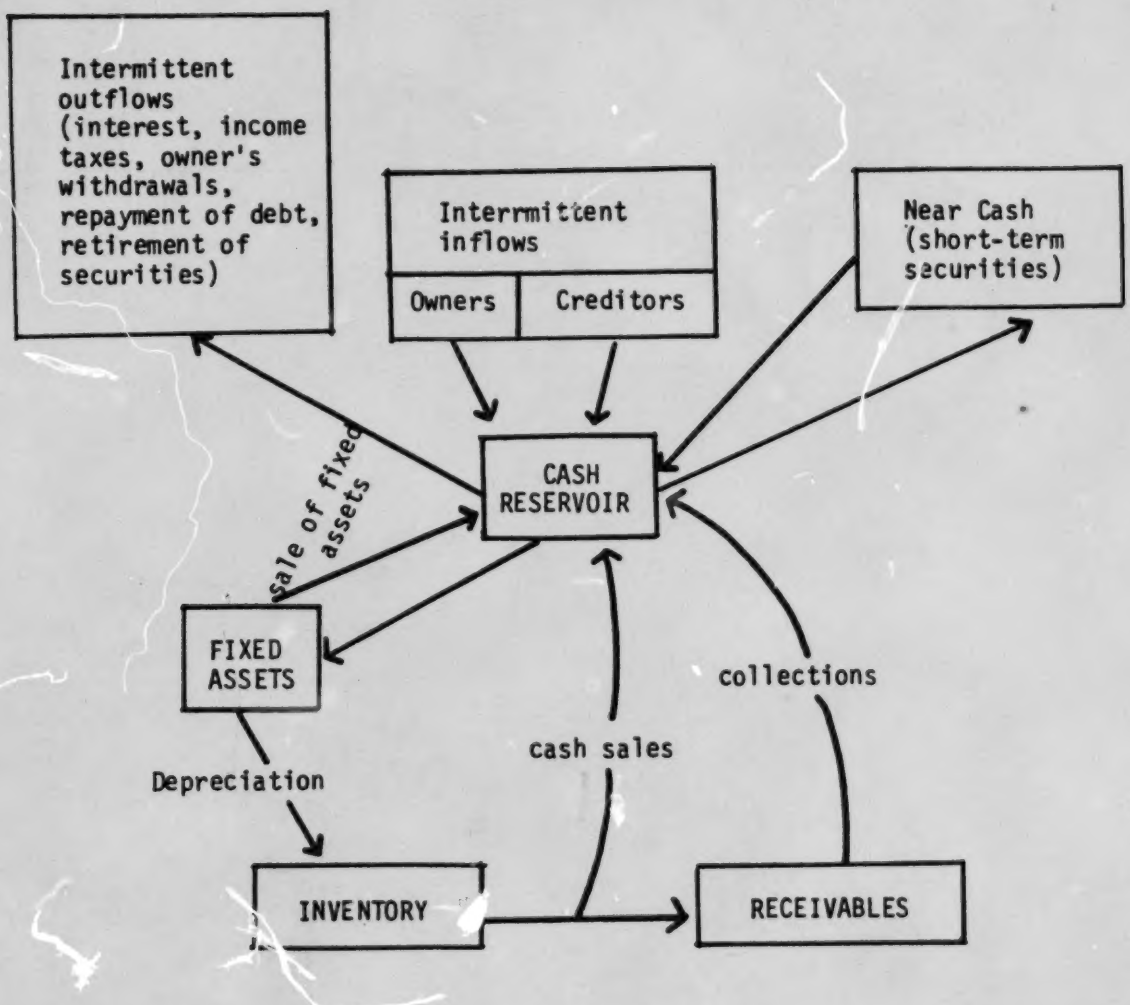
$\frac{5,000}{15,000} = 33\%$

Source: Walker, Jenepher (ed.) "Understanding Financial Statements," Small Business Reporter. San Francisco: Bank of America, 1974.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #4

THE FLOW OF CASH IN THE BUSINESS FIRM

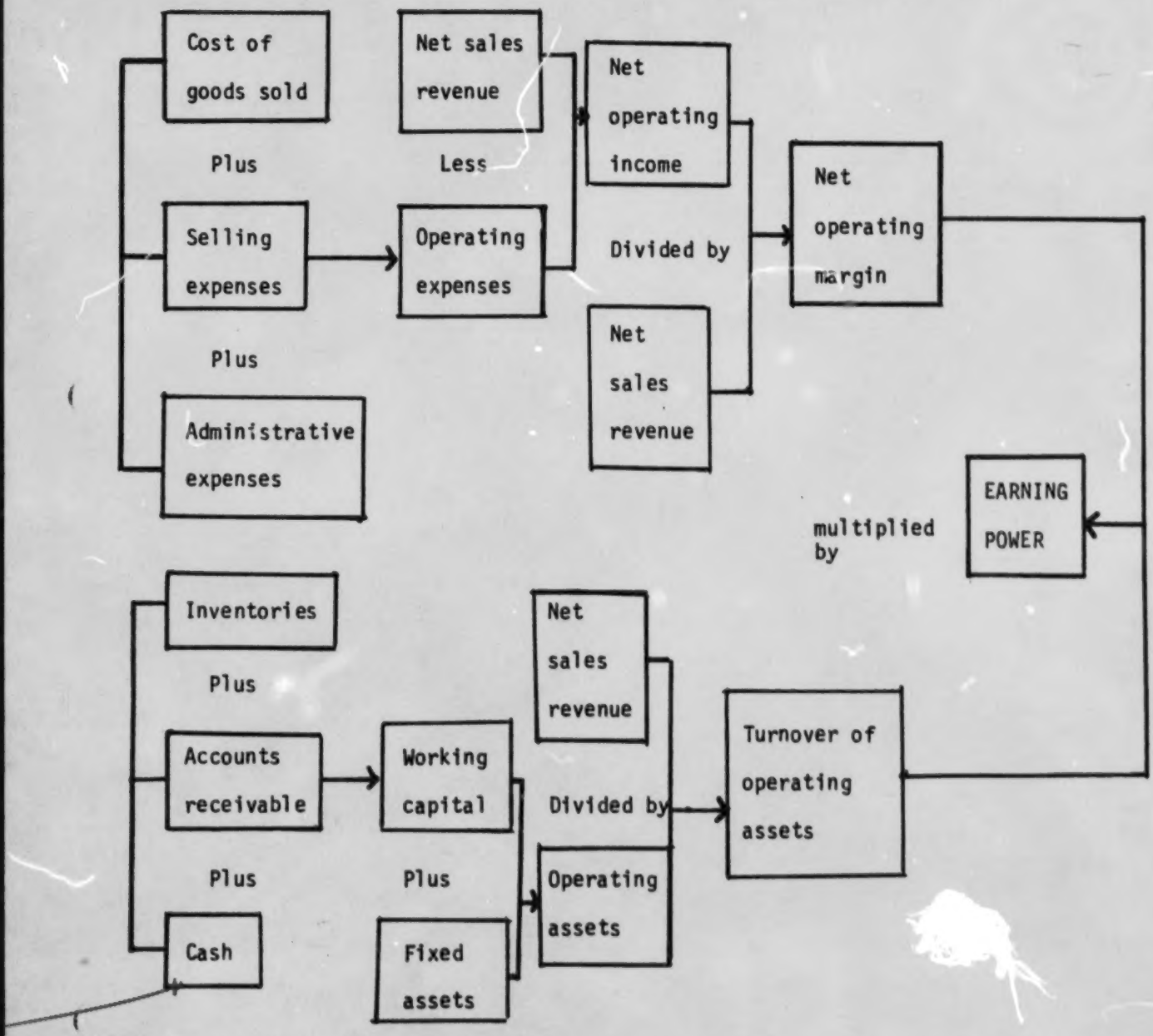


Source: Stegall, Donald. Managing the Small Business. Homewood: Richard D. Irwin, 1976.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #5

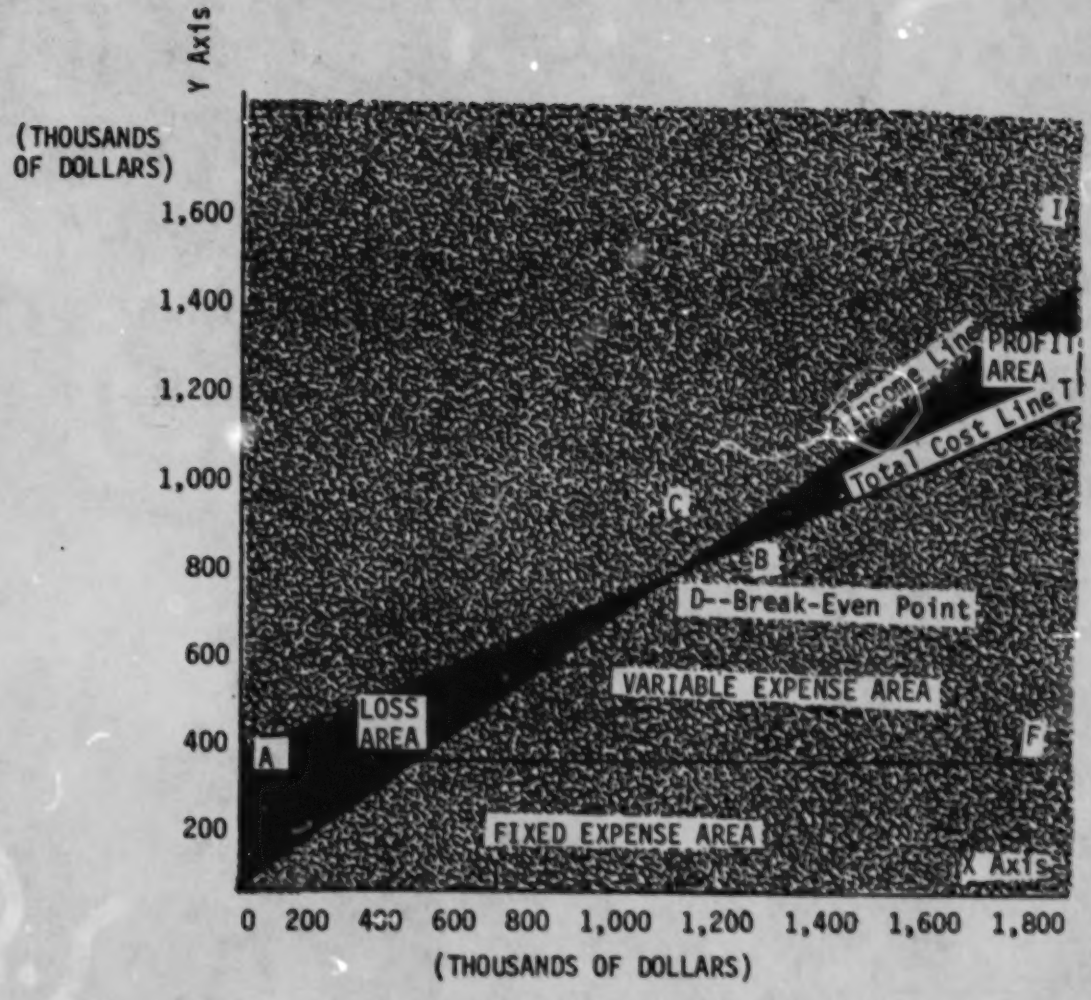
THE RELATIONSHIPS THAT DETERMINE THE EARNING POWER OF A FIRM



Source: Stegall, Donald. Managing the Small Business. Homewood: Richard D. Irwin, 1976.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #6



Source: Sisk, Henry L. Management and Organization. 2d ed. Cincinnati: South-Western Pub. Co., 1973.

INDEPENDENT BUSINESS OWNER/MANAGERS
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TRANSPARENCY MASTER #7

MERCHANDISE INVENTORY

AS INVENTORY LEVELS INCREASE, A POINT IS EVENTUALLY REACHED WHERE THE ADDITIONAL COSTS OUTWEIGH THE ADDITIONAL BENEFITS.

INDEPENDENT BUSINESS OWNER/MANAGERS
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TRANSPARENCY MASTER #8

COLLECTING UNPAID BILLS

TIME PERIOD OVERDUE	PERCENTAGE COLLECTED
2 - 3 Months	90%
3 - 6 Months	70%
6 Months - 1 Year	60%
1 - 2 Years	40%
2 - 3 Years	30%
3 - 4 Years	15%

INDEPENDENT BUSINESS OWNER/MANAGERS
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TRANSPARENCY MASTER #9

BAD DEBT RATIOS OF VARIOUS TYPES OF BUSINESSES

BUSINESS	RATIO
Apparel Stores	.02%
New Car Dealers	.02%
Book Stores	.10%
Building Materials Dealers	.03%
Convenience Food Stores	.02%
Furniture Stores	.33%
Gift Shops	.02%
Music Stores	.02%
Repair Services	.04%
Service Stations	.02%
Variety Stores	.02%

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #10

DEPRECIATION EXAMPLE

STRAIGHT-LINE METHOD:

ORIGINAL COST OF EQUIPMENT	$500.00
ESTIMATED TRADE-IN OR SCRAP VALUE	50.00
AMOUNT TO BE DEPRECIATED	450.00
YEARLY DEPRECIATION (ESTIMATED LIFE: 10 YEARS)	45.00

DECLINING BALANCE METHOD:

YEAR	DEPRECIATION 20% OF VALUE	REMAINING VALUE
0	---	$500
1	$100	400
2	80	320
3	64	256
4	51	205
5	41	164
6	33	131
7	26	105
8	21	84
9	17	67
10	13	54

INDEPENDENT BUSINESS OWNER/MANAGERS
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TRANSPARENCY MASTER #11

LOCATION COMPARISON RATING SHEET

I. PRIMARY ACCEPTANCE OR REJECTION FACTORS

Answer Yes or No	Locations under consideration			
	A	B	C	D
1. Is this location available?				
2. Will zoning allow your proposed business?				
3. Does this site meet minimum business needs?				
4. Do existing structures meet minimum initial needs?				
5. Is the price of this location within your operating budget?				
6. Is the location with or without buildings, fairly priced for your needs?				

A "no" answer may be sufficient reason not to proceed with further investigation unless correction or modification can be achieved.

II. SITE VALUATIONS

Use percent scale 0 to 100	A	B	C	D
7. How does this location compare with the best possible location available?				
8. What rating would you give the present buildings on the site?				
9. How would you rate your locational environment compared with the best environment existing within your trading area?				
10. How would you rate the adequacy of available parking for automobiles?				
11. What rating would be given to the nature and quantity of combined foot and auto traffic passing your location?				
12. What is the improvement potential of this location?				
Total	___	___	___	___

INDEPENDENT BUSINESS OWNER/MANAGERS
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UNIT IV

TRANSPARENCY MASTER #11 (continued)

III. TREND ANALYSIS

Brief answer as to conclusions	A	B	C	D
13. Has the location shown improvement through the years?				
14. Is the owner and/or landlord progressive and cooperative?				
15. What major patterns of change are affecting this location:				
a. Streets--speed limits--paving.				
b. Shopping centers.				
c. Zoning.				
d. Financial investment.				
e. Dynamic leadership and action.				
16. What businesses have occupied this location over the past 10 years?				
17. Have the businesses identified in 16 (above) been successful?				
18. Why is this location now available?				
19. Are a number of other suitable locations available? Compare the answer for each business and rank each by number from among those reviewed (1 - 2 - 3 - 4).	___ (1)	___ (2)	___ (3)	___ (4)

IV. PRICE-VALUE DETERMINIATION

	A	B	C	D
20. What is the asking price of each location?				
21. What numerical total for each site is developed through questions 7 to 12?				
22. Is there a "no" answer to any question 1 through 6?				
23. Do the answers to questions 13 through 19 develop a pattern which is:				
a. Highly favorable.				
b. Average.				
c. Minimal.				
d. Questionable.				
e. Not acceptable.				
Ranking position of each location based on numerical totals and preferences as to subjective items in III and IV.	___ (3)	___ (2)	___ (4)	___ (1)

Source: Stegall, Donald. Managing the Small Business. Homewood: Richard D. Irwin, 1976.

INDEPENDENT BUSINESS OWNER/MANAGERS
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UNIT IV

TRANSPARENCY MASTER #12

	LOCAL POPULATION	75,800
X	PER CAPITA DISPOSABLE INCOME	$3,513
=	TOTAL DISPOSABLE INCOME	$266,285,400
X	PERCENT OF DISPOSABLE INCOME SPENT FOR FOOD	19%
=	TOTAL FOOD SALES POTENTIAL FOR AREA	$50,594,226
-	COMPETITORS SALES	$40,124,016
=	AVAILABLE SALES	$10,470,210

ESTIMATE OF PURCHASING POWER FOR A FOOD STORE IN BAKERSFIELD, CALIFORNIA.

Source: Pickle, Hal B. and Royce L. Abrahamson. Small Business Management. New York: John Wiley & Sons, 1976.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #13

ADVERTISING AS PRACTICED BY SELECTED SMALL BUSINESSES

Type of Business	Average ad Budget (% of Sales)*	Favorite Media	Other Media Used	Special Considerations	Promotion Opportunities and Warnings
BARS AND COCKTAIL LOUNGES	1.0-1.2%	Newspapers (entertainment section), local magazines, tourist bulletins	Specialties	Manufacturers do all product advertising	Promoting new drinks, hosting tailgate or post-event parties, organizing expeditions. Caution: see the Alcoholic Beverage Control's advertising and promotion regulations
BICYCLE SHOPS	1.5-2.0%	Newspapers (sports section)	Flyers, Yellow Pages, cycling magazines, direct mail		
BOOKSTORES	1.5-1.6%	Newspapers, shopper, Yellow Pages	Direct mail	Cooperative advertising available from publisher	Autograph parties
BUILDING MAINTENANCE SERVICES		Direct mail, door-to-door, Yellow Pages	Signs on company vehicles and equipment		
CAMERA SHOPS (INDEPENDENT)	2.0-3.5%	Direct mail, handouts, Yellow Pages	Newspapers (except large urban)	Cooperative advertising available from manufacturer	Donation of services and equipment to community events and organizations

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #13 (continued)

ADVERTISING AS PRACTICED BY SELECTED SMALL BUSINESSES

Type of Business	Average ad Budget (% of Sales)*	Favorite Media	Other Media Used	Special Considerations	Promotion Opportunities and Warnings
DRUG STORES (INDEPENDENT)	1.5-3.0%	Local newspapers, shoppers,	Direct mail (list from prescription files)		
DRY CLEANING PLANTS	0.9-2.0%	Local newspapers, shoppers, Yellow Pages	Store front ads, pamphlets on clothes care		Special on seasonal cleaning (sleeping bags, parkas)
EQUIPMENT RENTAL SERVICES	1.7-4.7%	Yellow Pages			
GIFT STORES	2.2%	Weekly Newspapers	Yellow Pages, radio, direct mail, magazines		Open houses, demonstrations of product lines like cookware
HAIR-DRESSING SHOPS	2.0-5.0%	Yellow Pages	Newspapers (for special events), word-of-mouth		Styling for community fashion, beauty shows; conducting free beauty clinics at local high schools
HOME FURNISHING STORES	5.0-6.0%	Newspapers	Direct mail, radio	Cooperative advertising available from manufacturer	

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #13 (continued)

ADVERTISING AS PRACTICED BY SELECTED SMALL BUSINESSES

Type of Business	Average ad Budget (% of Sales)*	Favorite Media	Other Media Used	Special Considerations	Promotion Opportunities and Warnings
LIQUOR STORES (INDEPENDENT)	0.2-0.6%	Point-of-purchase displays	Newspapers, Yellow Pages	Manufacturers do all product advertising; co-op funds available	Caution: see Alcoholi Beverage Control's advertising and promotion regulations
MAIL ORDER FIRMS	15.0-25.0%	Newspapers, magazines	Direct mail	Display ads, not classified, in publications	Firms spend up to 40% of sales on advertising some promotions
PET SHOPS	2.0-5.0%	Yellow Pages	Window displays, shopper newspapers, direct mail		Talk on pet care to schools, community groups
PLANT SHOPS	1.3-1.5%	Local newspapers, word-of-mouth			Plant care clinics, courses in plant care, plant sitting, repotting
RECREATIONAL VEHICLE AND MOBILE HOME DEALERS	0.5-1.0%	Local newspapers, radio, Yellow Pages	Direct mail, television for multi-lot dealers	Trade shows constitute a major medium, should be budgeted for separately from other advertising	
REPAIR SERVICES	1.0-1.6%	Yellow Pages	Signs on vehicles, direct mail, shoppers		

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

TRANSPARENCY MASTER #13 (continued)

ADVERTISING AS PRACTICED BY SELECTED SMALL BUSINESSES

Type of Business	Average ad Budget (% of Sales)*	Favorite Media	Other Media Used	Special Considerations	Promotion Opportunities and warnings
RESTAURANTS AND FOOD SERVICES	0-4.0%	Newspapers, radio, Yellow Pages, transit, outdoor	Television for chain or franchise restaurants	Word-of-mouth relied on heavily by independent restaurants	"Free" advertising in restaurant critics' columns, specialty advertising, birthday cakes or parties for customers
SHOE STORES	3.0%	Newspapers, direct mail, radio	Yellow Pages (especially for specialty shoe vendors)	Cooperative advertising available from manufacturers	Collecting outgrown (but not worn out) childrens' shoes for donation to local charity
SMALL JOB PRINTERS	0.5-1.0%	Salespeople in the field	Direct mail		

*Slightly higher in new establishments

Source: Walker, Jenepher (ed.) "Advertising Small Business," Small Business Reporter. San Francisco: Bank of America, 1976.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

ASSIGNMENT SHEET #1

Using the background information below for Bindex Corporation and Glad Binders, compute current ratio.

	Bindex Corporation	Glad Binders
Current assets		
Cash	$ 7,400	$ 10,200
Marketable securities	15,000	20,000
Receivables (net)	60,900	43,900
Inventory	44,100	85,500
Total current assets	$127,400	$159,600
Current liabilities		
Accrued expenses	$ 15,000	$ 18,000
Accounts payable	34,000	39,000
Total current liabilities	$ 49,000	$ 57,000

Using the background information below for Delman Typewriter Company, compute merchandise turnover and average collection period.

Net sales for year (all on credit)	$164,250
Total year-end receivables	10,350
Quarterly inventories:	
March 31	40,500
June 30	22,800
September 30	50,200
December 31	17,900

Source: Morgenstein, Melvin et al. AVT Accounting System. New York: Media Systems Corp., 1979.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

ASSIGNMENT SHEET #2

Rate your present location or a potential new location on these points.

	Rating (+, -, 0)
I. City or town	
A. Economic considerations	
1. Industry	
a. Farming	_____
b. Manufacturing	_____
c. Trading	_____
2. Trend	
a. Highly satisfactory	_____
b. Growing	_____
c. Stationary	_____
d. Declining	_____
3. Permanency	
a. Old and well established	_____
b. Old and reviving	_____
c. New and promising	_____
d. Recent and uncertain	_____
4. Diversification	
a. Many and varied lines	_____
b. Many of the same type	_____
c. Few varied lines	_____
d. Dependent on one industry	_____
5. Stability	
a. Constant	_____
b. Satisfactory	_____

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

ASSIGNMENT SHEET #2 (continued)

Rating (+, -, 0)

c. Average _____
d. Subject to wide fluctuations _____

6. Seasonality

a. Little or no seasonal change _____
b. Mild seasonal change _____
c. Periodical--every few years _____
d. Highly seasonal in nature _____

7. Future

a. Most promising _____
b. Satisfactory _____
c. Uncertain _____
d. Poor outlook _____

B. Population

1. Income distribution

a. Mostly wealthy _____
b. Well distributed _____
c. Mostly middle income _____
d. Poor _____

2. Trend

a. Growing _____
b. Large and stable _____
c. Small and stable _____
d. Declining _____

3. Living status

a. Own homes _____
b. Pay substantial rent _____

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

ASSIGNMENT SHEET #2 (continued)

Rating (+, -, 0)

c. Pay moderate rent _____
d. Pay low rent _____

C. Competition

1. Number of competing stores

a. Few _____
b. Average _____
c. Many _____
d. Too many _____

2. Type of management

a. Not progressive _____
b. Average _____
c. Above average _____
d. Alert and progressive _____

3. Presence of chains

a. No chains _____
b. Few chains _____
c. Average number _____
d. Many well established _____

4. Type of competing stores

a. Unattractive _____
b. Average _____
c. Old and well established _____
d. Are many people buying out of community? _____

D. The town as a place to live

1. Character of the city

a. Are homes neat and clean or rundown and shabby? _____

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

ASSIGNMENT SHEET #2 (continued)

Rating (+, -, 0)

b. Are lawns, parks, streets, etc., neat, modern, attractive? _____

c. Adequate facilities available _____

1. Banking _____
2. Transportation _____
3. Professional services _____
4. Utilities _____

2. Facilities and climate

a. Schools _____
b. Churches _____
c. Amusement centers _____
d. Medical and dental services _____
e. Climate _____

II. The actual site

A. Competition

1. Number of independent stores of same kind as yours

a. Same block _____
b. Same side of street _____
c. Across street _____

2. Number of chain stores

a. Same block _____
b. Same side of street _____
c. Across street _____

3. Kinds of stores next door _____

4. Number of vacancies

a. Same side of street _____
b. Across street _____

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

ASSIGNMENT SHEET #2 (continued)

	Rating (+, -, 0)
Next door	_____
5. Dollar sales of nearest competitor	_____
B. Traffic flow	
1. Sex of pedestrians	_____
2. Age of pedestrians	_____
3. Destination of pedestrians	_____
4. Number of passers-by	_____
5. Automobile traffic count	_____
6. Peak hours of traffic flow	_____
7. Percent location of site	_____
C. Transportation	
1. Transfer points	_____
2. Highway	_____
3. Kind (bus, streetcar, auto, railway)	_____
D. Parking facilities	
1. Large and convenient	_____
2. Large enough but not convenient	_____
3. Convenient but too small	_____
4. Completely inadequate	_____
E. Side of street	_____
F. Plant	
1. Frontage--in feet	_____
2. Depth--in feet	_____
3. Shape of building	_____
4. Condition	_____
5. Heat--type; air conditioning	_____
6. Light	_____

INDEPENDENT BUSINESS OWNER/MANAGERS
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UNIT IV

ASSIGNMENT SHEET #2 (continued)

	Rating (+, -, 0)
7. Display space	_____
8. Back entrance	_____
9. Front entrance	_____
10. Display windows	_____
G. Corner location--if not, what is it?	_____
H. Unfavorable characteristics	
1. Fire hazards	_____
2. Cemetery	_____
3. Hospital	_____
4. Industry	_____
5. Relief office	_____
6. Undertaker	_____
7. Vacant lot--no parking possibilities	_____
8. Garages	_____
9. Playground	_____
10. Smoke, dust, odors	_____
11. Poor sidewalks and pavement	_____
12. Unsightly neighborhood buildings	_____
I. Professional men in block	
1. Medical doctors	_____

INDEPENDENT BUSINESS OWNER/MANAGERS
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UNIT IV

ASSIGNMENT SHEET #3

C A S E

JOEY'S PIZZA PALACE

Joey's Pizza Palace has just recently opened its doors for business. Naturally, Joey is anxious to have his eating establishment become a popular spot for dining out in the community. However, he realizes this is not going to be an easy task because of strong competition not only from other pizza establishments in the city but also from all other types of food operations. Joey realizes he has spent a lot of money getting his pizza palace off the ground and operating. He would like to think that he could rely on word-of-mouth advertising from satisfied customers instead of having to advertise in the various media. However, he recognizes that this type of advertising is not totally satisfactory, although he prides himself on the quality of his foods and services, and his customers have expressed much satisfaction with his pizzas. Thus, Joey is concerned about getting the most for the dollars he is going to spend for advertising. And he also wonders about the feasibility of special sales promotion events for his pizza palace.

QUESTIONS

1. Outline a positive program of advertising for Joey's Pizza Palace.

2. Which advertising medium or media would you recommend he use?

3. What sales promotion techniques, if any, could you recommend for Joey to use in his pizza palace?

Source: Pickle, Hal B. and Royce L. Abrahamson. Small Business Management. New York: John Wiley & Sons, 1976.

INDEPENDENT BUSINESS OWNER/MANAGERS
THE BOTTOM LINE
UNIT IV

REVIEW SHEET

Check what you have learned about accounting, budgeting, computers, market analysis, and advertising by completing the review sheet below. Then check your answers with the information sheet materials. If you get all twelve items right, you're doing a terrific job! If you get ten right, that's good; eight right is fair, and if you got seven right or less, you need some review on the principles.

1. Match the following terms and their definitions.

_____ A. Accounting	1. A group of machines whose capabilities include the ability to read in information automatically, to process this according to a program of instructions which it holds in memory, and to communicate the results of its work automatically to the outside world.
_____ B. Advertising	2. A plan expressed in quantitive (normally financial) terms.
_____ C. Balance sheet	3. A report matching the amount of money earned from the sale of goods or from services performed, against the expense incurred in earning that revenue for a specific period of time.
_____ D. Break-even point	4. A statement showing how a business is doing as of a particular date.
_____ E. Budget	5. A system for collecting, summarizing, analyzing, and reporting, in monetary terms, information about an organization.
_____ F. Computer	6. Consumable supplies for programming and other human effort which makes the machinery operate as required.
_____ G. Hardware	7. Mass communication of information intended to persuade buyers to buy, so as to enable the business to maximize dollar profits.

_____ H. Income statement

_____ I. Software

8. The computer machinery itself.

9. When sales reach a dollar volume equal to all expenses incurred in attaining that level of sales.

2. List the three things upon which successful financial management depends.

a.

b.

c.

3. List the three capital needs for small businesses and the four basic means of generating those funds.

capital needs:

a.

b.

c.

means of generating funds:

a.

b.

c.

d.

4. Demonstrate an understanding of financial statements and ratios by completing the problem below:

Balance 12/31/End of Current Year		Total for the Year	
Cash	$ 12,000	Sales	$300,000
Accounts receivable	20,000	Purchases of merchandise during the year	190,000
Merchandise inventory	100,000	Cost of goods sold	
General Motors stock	2,000	Advertising	10,000
Land	10,000	Sales salaries	30,000
Building	20,000	Office expense	20,000
Organizational costs	2,000	Interest expense	1,000
Accounts payable	10,000	Postage	1,000
Mortgage payable	50,000	Telephone	1,000
Merchandise Inventory 1/1/Start of Current Year	$ 90,000	Utilities	2,000

What is the working capital? _____

What is the amount of profit or loss? _____

What is the current ratio? _____

b. Diagram the cash flow process.

c. Diagram a break-even analysis.

d. Diagram the earning power process.

5. Discuss inventory control, specifically five inventory costs, four rules for good inventory control, and three inventory control systems.

costs:

a.

b.

c.

d.

e.

rules:

a.

b.

c.

d.

control systems:

a.

b.

c.

6. Discuss three guidelines for credit sales and three collection procedures.

guidelines for credit sales:

a.

b.

c.

collection procedures:

a.

b.

c.

7. List the taxes a business collects as an agent and those imposed upon the business, and some possibilities of avoiding unnecessary taxation.

   collects:

   a.

   b.

   c.

   imposed:

   a.

   b.

   c.

   d.

   possibilities:

   a.

   b.

   c.

8. Demonstrate an understanding of depreciation calculations by figuring the depreciation for the problem below on both the straight-line and declining balance methods.

   Equipment purchased for $8,000
   Trade-in value of $1,000
   Estimated life--7 years

9. List three reasons for using budgets and five steps in preparing a budget.

   reasons:

   a.

   b.

   c.

   steps:

   a.

   b.

   c.

   d.

   e.

10. Discuss four possibilities of beginning computer usage, five classifications of computers, and five reasons why owner/managers use computers.

possibilities:

a.

b.

c.

d.

classifications:

a.

b.

c.

d.

e.

reasons:

a.

b.

c.

d.

e.

11. Discuss four factors affecting market potential and three ways in which the type of good sold affects market strategy.

factors:

a.

b.

c.

d.

type of good sold:

a.

b.

c.

12. List two purposes of advertising, five limitations of advertising, and five steps in planning your advertising.

purposes:

a.

b.

limitations:

a.

b.

c.

d.

e.

steps:

a.

b.

c.

d.

e.

INDEPENDENT BUSINESS OWNER/MANAGERS
WHAT'S AHEAD?
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UNIT OBJECTIVES

This unit will give the independent business owner/manager an opportunity to increase management skills in regard to goal-setting, risk-taking, use of consultants, research and development, and incorporating. In studying the five topics, specific techniques for each will be presented as well as opportunities to participate in actual practice activities.

SPECIFIC OBJECTIVES

Upon completion of this unit, the participant should be able to:

1. Match definitions with the following terms: planning and risk.
2. List the two patterns of planning typically used by owner/managers and the five characteristics of good planning.
3. Explain the process of planning, including at least five requirements for planning and five pitfalls to be avoided in planning.
4. List the benefits of planning and illustrate an understanding of the relationship between planning and management by drawing a diagram of the management by objectives process.
5. Discuss risk taking in business, specifically four dangers in risk-taking and four methods of dealing with business risks.
6. List the various sources of help available to the small business owner/manager, including four professional services, uses of management consultants, and other sources.
7. Explain how the small business can be involved in research and development.
8. List five advantages and seven disadvantages of incorporating and discuss the Subchapter "S" form of corporation available to small businesses.

INDEPENDENT BUSINESS OWNER/MANAGERS
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SUGGESTED ACTIVITIES

I. Instructor:

A. Provide participants with objective sheet.
B. Provide participants with information and assignment sheets.
C. Discuss objectives.
D. Discuss information and assignment sheets.
E. Discuss review sheets.

II. Participants:

A. Read objectives.
B. Study information sheets.
C. Complete assignment sheets.
D. Check that objectives can be achieved.
E. Complete and check review sheets.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

A. Objectives
B. Information sheets
C. Transparency masters:

1. The star of good planning
2. Management by objectives diagram
3. Ways of dealing with risk
4. Forms of business ownership

D. Assignment sheets:

1. Goal-setting case study
2. Risk-taking self assessment
3. Incorporating case study

E. Review sheets

II. References:

A. Baumback, Clifford. How to Organize and Operate a Small Business. 5th ed. Englewood Cliffs: Prentice-Hall, 1973. (A,B,C,D,E)

B. Bittel, Lester R. What Every Supervisor Should Know. 3d ed. New York: McGraw-Hill, 1974. (A)

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E. Liles, Patrick R. New Business Ventures and the Entrepreneurs. Homewood: Richard D. Irwin, 1974. (B)

F. McCarthy, John J. Why managers fail. . .and what to do about it. New York: McGraw-Hill, 1978. (A)

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I. Rue, Leslie W. and Lloyd L. Byars. Management: Theory and Application Homewood: Richard D. Irwin, 1977. (A)

J. Sloane, Robert M. Guide to Health Facilities--Personnel and Management. St. Louis: C.V. Mosby Co., 1971. (A)

K. Stegall, Donald P. Managing the Small Business. Homewood: Richard D. Irwin, 1976. (A,B,C,D,E)

L. Taylor, John R. How to Start and Succeed in a Business of Your Own. Reston: Reston Publishing Co., 1978. (B)

M. Terry, George R. Principles of Management. 6th ed. Homewood: Richard D. Irwin, 1972. (A)

N. Terry, George R. Supervision. Homewood: Richard D. Irwin, 1978. (A)

REFERENCE CODE:

A--goal-setting
B--risk-taking
C--consultants
D--research and development
E--incorporating

INDEPENDENT BUSINESS OWNER/MANAGERS
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INFORMATION SHEET

I. Terms and definitions:

A. Planning--Drawing up a scheme of action, projects, programs, outlines, and schedules.
B. Risk--The chance of loss; degree of probability of loss.

II. Setting goals or planning, for either the long-range of several years or short-range terms of a year or less, is an essential task for the business owner/manager.

A. Patterns of planning typically used by owner/managers:

1. Satisficing--emphasizes status quo; obvious deficiencies are corrected, but customary way of doing things is preserved; survival is of major importance, growth and development are secondary or ignored.
2. Optimizing--stresses doing the best, getting the maximum results; may be impossible or impractical, e.g., a goal of selling a new vacuum cleaner to every family in the city is unlikely to be met.

B. Characteristics of good planning:

1. Hard document--in written form, not only in planner's memory where daily problems can supersede plans.
2. Regular intervals--done on a regular basis rather than as sporadic responses to emergency situations.
3. Future improvement--emphasis is on looking ahead, not on trying to compensate for past mistakes in planning.
4. Rational--based on facts rather than emotions.
5. Systematic--well organized as to the who, what, where, when, why, and how involved. (transparency)

III. Good planning does not "just happen;" it takes long, hard work.

A. Requirements for planning:

1. See the situation as a whole. Set goals for the overall business before setting individual or unit goals.
2. Divide the whole into workable parts. Overall goals can be broken down into parts for financial control, sales strategies, advertising, expenses control, etc.
3. Use constructive imagination. Wishful thinking will not make success, but full, creative use of all the business's potential in quantity, quality, time, and cost will accomplish many goals.
4. Be objectively analytical. Goals must be realistic; capabilities should be stretched to their fullest, but to expect the unobtainable is foolish.
5. Measure the effect of the plan. Set up some means of checking whether or not you are actually following your plan.

6. Avoid getting bogged down in details. The overall plan is most important and should not be lost in various implementation schemes.
7. Work with large quantities of unknowns. Accept the fact of uncertainty in the small business world.

B. Pitfalls to be avoided in planning:

1. Failure to anticipate change. People change; needs change; plans must be flexible enough to change also if unforeseen emergencies arise.
2. Unwillingness to take calculated risks. The successful planner will carefully consider potential gain versus probable loss, but dare to be imaginative. Fear of failure is one of the biggest causes of failure.
3. Failure to establish priorities. Plans must contribute to accomplishment of desired purposes and provide a definite route to those goals.
4. Failure to make plans known to those involved. Plans must be clear, understandable, and fully communicated to personnel by whom the plan will be used.
5. Indecision. Procrastination and the resulting failure to ever establish any definite goals will only lead to difficulties. Opportunities will be missed and problems that might have been avoided will harm the business.

IV. Good planning pays dividends.

A. Benefits of planning:

1. Help direct the efforts of the organization into new growth areas, thus avoiding stagnant and/or low profit areas.
2. Not only show the areas of operations which the firm should go into in the future, but also disclose when action must be taken to get into those specific business areas.
3. More effective control and measurement. Help take stock of operations and identify the sources of strength and weaknesses which exist in the business.
4. Easier delegation; plan identifies who can do what and standards for successful task accomplishment.
5. More economical use of resources; avoid waste of:

   a. Time--because of unavoidable delays.
   b. Materials--because of haste, spoilage, or unnecessary inventories.
   c. Machines--because they are not being operated to their best capacity.
   d. Space--because of overcrowding and poor coordination of incoming supplies and outgoing production.
   e. Manpower--because employees are not optimally occupied.

6. Highlight various future needs such as additional manpower, new facilities, new location, etc.
7. Help give stability to the firm, particularly in the short run, because they serve as a source of perspective as to how particular short-run plans fit into the overall scheme of operations.

B. The management by objectives trend is an example of how planning can benefit the owner/manager on a daily basis. Its phases include: (transparency)

1. Manager establishes goals of the organization.
2. Manager disseminates portions of total goals to responsible subordinates.
3. Manager and subordinates plan for action required to attain goals.
4. Manager compares results obtained with original goals.
5. Manager establishes goals for next period, depending upon success or failure of former period.

V. Risk-taking in business.

A. Risk has three basic elements, all of which are subject to individual perception. That individual perception determines the owner/manager's course of action--whether or not s/he takes the risk.

1. The perceived "odds" of various good and bad events occurring.
2. The perceived consequences of those events.
3. The perceived seriousness of the consequences.

B. Some real dangers exist in risk-taking:

1. The problem of objectivity--most individuals tend to be conceited to a certain degree regarding their own abilities; this leads to an overvaluing of potential gains and an undervaluing of potential loss.
2. The problem of inadequate information--overlooking facts because of the time involved in gathering and interpreting information can lead to real problems.
3. The problem of oversight--the belief that "it can't happen to me" also leads to overlooking the possible costs.
4. The problem of the inevitable error. Regardless of time, effort, and money spent on risk control, the improbable will sometimes happen. No matter how remote the possibility, risk always involves the chance that the future event will occur.

C. There are four basic methods of dealing with business risks: (transparency)

1. Avoid the risk, by:

a. Substitution--e.g., substituting less costly materials or safer processes for high risk materials and processes.
b. Screening--e.g., screening out poor credit risks to aid in reducing bad debt losses.
c. Elimination--e.g., requiring employees to wear eye goggles when operating a grinder is eliminating one chance of injury.

2. Reduce the risk through good management practices. For example, training programs may reduce injury risks and good hiring procedures may reduce the chances of employee theft.
3. Assume the risk. Purchasing merchandise is a risk that most small business must assume.

4. Shift the risk, by:

   a. Subcontracting--e.g., a contractor may subcontract electrical work to another firm to avoid the risk of poor work due to his/her own lack of experience in that area.
   b. Hedging--e.g., a cattle feeder may buy and sell cattle futures to avoid price fluctuations.
   c. Insurance--the most common method of shifting risk.

D. Although an owner/manager recognizes that s/he is taking many business risks, there are four other critical risk areas often not considered:

   1. Financial risk--beyond the financial investment in plant, inventories, etc., there is the personal risk of sacrificing savings that might be used for other things and the ultimate risk of personal bankruptcy.
   2. Career risk--if the business should fail, will the owner/manager be able to get another satisfactory job?
   3. Family risks--energies, emotions, and time that might be spent with the family are usually required by the business.
   4. Psychic risk--the small business owner/manager is the business and failure can be devastating to self-confidence.

E. Business risks that almost inevitably lead to business failure are usually caused by:

   1. Business ignorance--lack of knowledge about buying, selling, managing finances, and handling people. Some examples:

      a. Choosing a poor location.
      b. Neglecting the real market.
      c. Buying goods at unreasonably high prices.
      d. Buying more goods than the business can afford.
      e. Extending credit to poor risks.
      f. Buying more machinery or equipment than the business can afford.
      g. Expanding the business before expansion is feasible.
      h. Borrowing more money than can be repaid.
      i. Letting competition steal customers.
      j. Allowing personal problems to interfere with the business.

   2. Business irresponsibility--carelessness, insensitivity, and violating the tenets of good faith. Some examples include:

      a. Taking money out of the business for personal expenses when the business cannot afford it.
      b. Not putting in enough time at the business to assure its success.
      c. Not performing on both expressed and implied promises.
      d. Not keeping suppliers, customers, employees and creditors informed of any difficulties that may affect them.
      e. Not competing ethically.
      f. Not buying or selling ethically.

VI. External sources of help are frequently necessary if the small business owner expects to manage his/her operations successfully.

A. Every small business will need the services of professionals periodically.

1. An attorney should be hired on a retainer basis, because:

a. If questions come up frequently, it will be less expensive.
b. Service on a continuing basis means more familiarity with the firm and more sympathy with its needs.

2. An accountant may also be on a retainer; s/he should be used for:

a. Review of the bookkeeping system.
b. Periodical preparation of financial statements.
c. Tax preparation.

3. An insurance agent should also be available to provide free advice and policy services.
4. The local banker can offer advice on financial matters, and also:

a. Serve as a source of credit information on customers.
b. Provide loans for business operations and/or expansion.

5. Other community people such as real estate agents, credit bureau managers, newspaper editors, city managers, etc., are concerned with the economic growth of the community and may provide aid to small business.

B. The small business owner/manager might consider hiring a management consultant.

1. Most small businesses need consultants for:

a. Specialized assistance when some serious difficulty is encountered.
b. Periodic checkups to detect hidden pitfalls that may be avoided if discovered in time.

2. The work of the management consultant consists of two parts:

a. Diagnosis of the trouble or weakness.
b. Recommendations for improvement.

3. Sources of management consultants include:

a. Professional management consultant firms, of which there are over 15,000 in the United States; usually charge over $100 per day for their services.
b. Professionals from area colleges or larger corporations who will do consulting work on the side.
c. Governmental agencies and programs, such as the Small Business Administration and SCORE.

4. Some advantages of using a management consultant:

   a. Provides an outside point of view.
   b. Based on wide experience.
   c. Applies specialized knowledge to the problem at hand.
   d. Emphasizes the scientific approach to problems.
   e. Saves time.

C. Some other sources of business information include:

1. Governmental sources:

   a. U.S. Department of Commerce--publishes a monthly Survey of Current Business and various census information such as the Census of Business, Census of Agriculture, Census of Manufactures, etc.
   b. Small Business Administration--provides three areas of assistance:

      1. Financial assistance--both lending money and counseling on financial matters.
      2. Procurement of government contracts.
      3. Managerial and technical assistance--both in the form of publications and consulting personnel.

   c. State and local agencies--publication of business statistics and staff services.

2. Nongovernmental sources:

   a. Trade associations--an organization for a particular type of business or industry; compile statistical data, provide publications, may make shop visitations for consultation.
   b. Trade publications--one of the most economical sources for keeping abreast of developments in the field.
   c. Suppliers--often a source of marketing information and hints.
   d. Equipment manufacturers--provide suggestions on uses of their equipment and other management aids.
   e. Large-company competitors--watching their innovations may suggest possibilities for the small business owner/operator.
   f. Continuing education--through business conferences and seminars, area colleges, etc.

VII. Research and development, other than that supplied by contact with other business owners and trade periodicals, is often ignored by the small business owner/manager.

A. The small business can be a source of marketing research.

1. Every business needs to know:

   a. What the customer wants.
   b. How to inform the consumer of the products and services that the business has for sale.
   c. How to optimize the efficiency of the distribution process itself.

2. The owner/manager can collect informational data him/herself on such details as what kind of customers the business attracts, what geographical area the customers come from, etc.
3. Information collected can help the manager make decisions that can increase sales by understanding customer buying habits and product preferences.

B. Some pooling of resources by small business as a result of the 1958 White House Conference on Technical and Distribution Research for the Benefit of Small Business has enabled small businesses to take advantage of specialized industrial research.

VIII. Incorporating--advantages and disadvantages for the small business. (transparency)

A. Advantages:

1. Legal liability of owners or stockholders for suits for personal injury or other activities connected with operating the business is limited to the amount of funds invested in the business.
2. The corporation is long-lived, being able to continue in existence up to the time limit granted in its charter, whereas the proprietorship ceases with the death of the owner and a partnership with the death of any partner.
3. Capital may be accumulated from many sources: sale of common or preferred stock, loans made by issuing bonds, exchange of assets, and reservation of profits from the business.
4. Ownership in a corporation is easily transferred merely by sale or exchange of stock and entry of the new ownership on the books of the corporation. Permission of other stockholders is not required except in rare cases of separate contractual agreements.
5. Management of the business may be concentrated even though ownership is widespread.
6. A large number of owners may obtain for the corporation a considerable amount of free publicity and goodwill.

B. Disadvantages:

1. Its activities are limited to those specifically granted in the charter. A firm incorporated to engage in the retail dry goods business could not legally handle groceries or engage in manufacturing unless a "catchall" clause granting almost unlimited scope has been included in the charter.
2. Its geographical area of operations is limited to the state granting its charter until permission is secured from each state in which it desires to operate. This means also that additional license fees must be paid and regulations observed.
3. If active management is employed in lieu of owner-management, the personal interest and incentive associated with ownership are lessened.
4. The corporation must make numerous reports for taxation and other purposes to each state in which it does business.
5. Federal and state regulation of corporations has been increasing for some time.

6. A corporation is subject to more taxes than is the proprietorship or partnership (except for Subchapter S, discussed below).
7. More paperwork for reports and records is necessary, and the amount increases greatly as the corporation grows in size.
8. In the small corporation the advantage of limited liability is often circumvented in the case of business debts by the custom of requiring major stockholders to guarantee or endorse notes due to banks and to major merchandise suppliers.

C. In an attempt to assist small business, Congress added Subchapter "S" to the internal revenue code.

1. Subchapter "S" permits corporations under certain conditions to be taxed as a partnership:

   a. It must have less than 11 stockholders.
   b. The stockholders must be individuals or estates.
   c. It must have only one class of stock.
   d. It must be a domestic corporation.
   e. It cannot be a member of an affiliated group eligible to file consolidated returns.
   f. No more than 20 percent of its gross receipts may come from passive income (rents, interest, dividends, royalties, etc.).

2. For most small businesses, potential benefits are great:

   a. Income splitting. In a high profit year, a father may give stock to his children to take advantage of his lower income tax bracket without giving up control of the corporation.
   b. Shifting income to a lower income year. If the corporation tax year (e.g., starts July 1) is different from the owners personal income tax year (starting January 1), the dividends may be declared to shift income from high income years to low income years.
   c. The benefits of the corporation form of ownership can be enjoyed without the so-called "double taxation."
   d. Being taxed as a Subchapter "S" corporation may be elected and terminated at will. This makes possible the use of the Subchapter "S" corporation taxation during years when it is an advantage and not during years when it is not an advantage.

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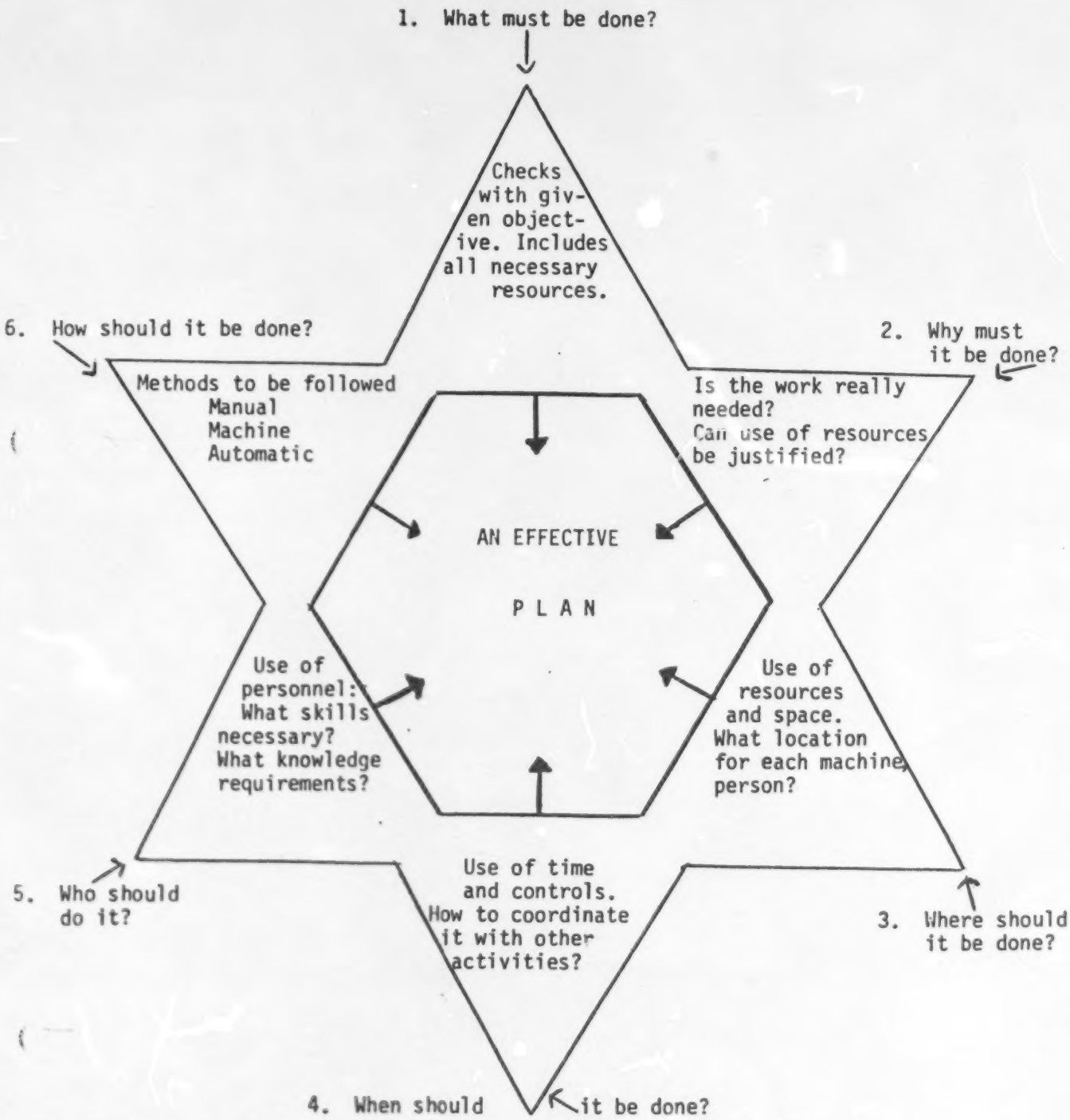
TRANSPARENCY MASTER #1


1. What must be done?
Checks with given objective. Includes all necessary resources.
2. Why must it be done?
Is the work really needed?
Can use of resources be justified?
3. Where should it be done?
Use of resources and space. What location for each machine, person?
4. When should it be done?
Use of time and controls. How to coordinate it with other activities?
5. Who should do it?
Use of personnel: What skills necessary? What knowledge requirements?
6. How should it be done?
Methods to be followed
Manual
Machine
Automatic
AN EFFECTIVE
PLAN

Source: George R. Terry, Supervision. Rev. ed. Homewood: Richard D. Irwin, Inc., 1978, p. 151.

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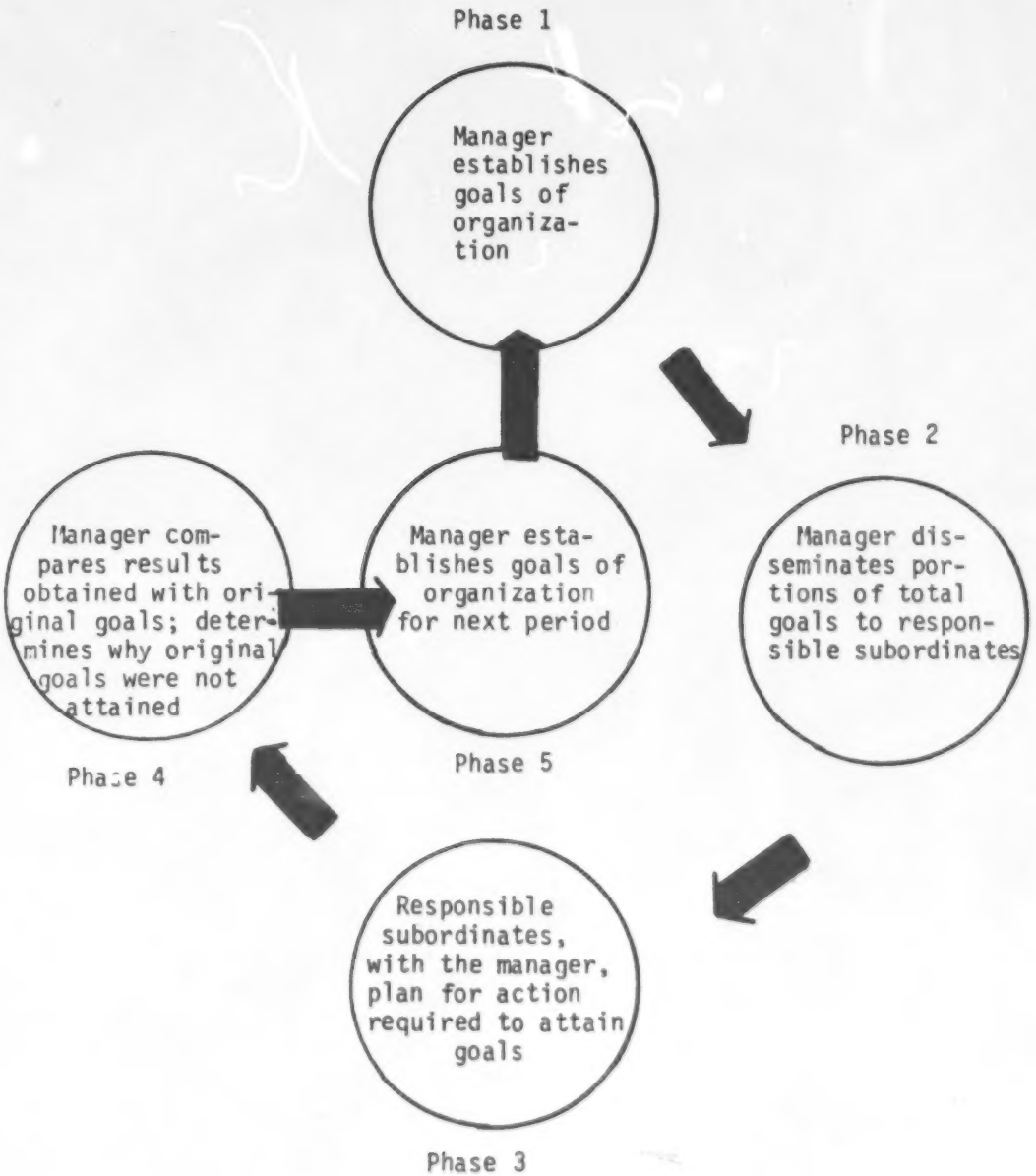
TRANSPARENCY MASTER #2


Phase 1
Manager establishes goals of organization
Phase 2
Manager disseminates portions of total goals to responsible subordinates
Phase 3
Responsible subordinates, with the manager, plan for action required to attain goals
Phase 4
Manager compares results obtained with original goals; determines why original goals were not attained
Phase 5
Manager establishes goals of organization for next period

CONTINUOUS FLOW OF MANAGEMENT BY OBJECTIVES

Source: Sloane, Robert M. Guide to Health Facilities--Personnel and Management. St. Louis: C.V. Mosby Co., 1971.

INDEPENDENT BUSINESS OWNER/MANAGERS
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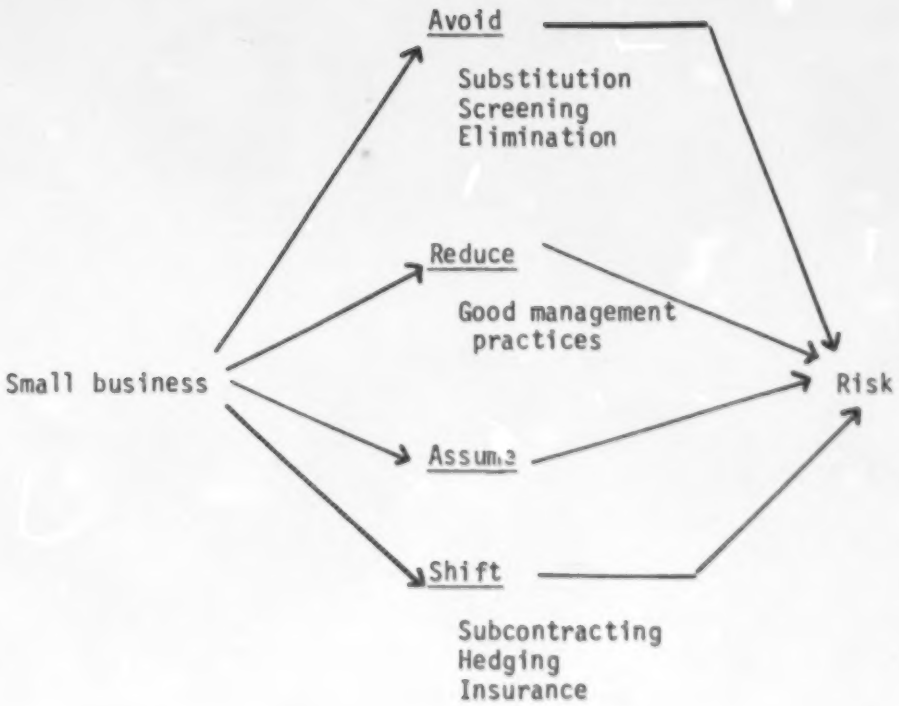
UNIT V

TRANSPARENCY MASTER #3



RISK CONTROL IN SMALL BUSINESSES

Source: Pickle, Hal B. and Royce L. Abrahamson. Small Business Management. New York: John Wiley & Sons, 1976.

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TRANSPARENCY MASTER #4

	Sole Proprietorship	Partnership	Corporation
Creation of form of ownership	One person starts a business	Two or more people sign articles of copartnership	Three or more people obtain state charter
Ability to accumulate capital	Assets and credit of one person	Assets and credit of all partners	Sale of stocks and bonds
Profit sharing	All to owner	To partners based on agreement	Stockholders
Authority	All to owner	Based on articles of of copartnership	Board of directors
Life and continuity	Depends on owner	Depends on general partners	Usually perpetual life and transfer of stock provides continuity
Liability	Unlimited liability	Unlimited liability to general partners	Limited to amount of stockholder investment
Legal restrictions	No special ones	No special ones	Several state and federal restrictions

Features of the Sole Proprietorship, Partnership, and Corporation Form of Ownership

Source: Pickle, Hal B. and Royce L. Abrahamson. Small Business Management. New York: John Wiley & Sons, 1976.

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ASSIGNMENT SHEET #1

BONNY'S BON BONS

While Bernice Brevoort, widow and former school teacher, was ill one spring and needed some added income, she remembered an unusual candy her mother used to make. After locating the recipe and experimenting a few times, she packaged some and took it to a friend's gift shop. It became very popular, and eventually she took over a section of the shop for her candy business. Later she arranged to sell it on consignment through other friends in various spots and after a few errors developed seven dependable outlets. Selling on consignment permitted her to replace older stock.

Her candy was high-priced, but was of exceptional quality and came in a variety of appealing flavors. She called her package "Bonny's Bon Bon Assortment" originally, but later put it out in smaller packages of single flavors. In the meantime her manufacturing and sales facilities had required considerable expansion. Yet she was making money at an increasing rate.

One day the president of the largest local department store asked her if she would mind coming to see him; so, in a few days she did so. He surprised her by suggesting that her candy was good enough to carry the store name, and that he was willing to place a substantial order under those conditions. This order was several times the monthly sales of any of her outlets, and almost as much as her total sales had been until recently. But the payment offered per pound was considerably lower than she was being paid by her "retailers" at this point. However, the order would not be on consignment.

About this same time a drugstore chain, locally represented but with its main offices elsewhere, sent a representative to see Bernice. He complimented her on her success, then said he was authorized to place an order for a year's supply at about the same price and amount per month as the department store offer. In this case, however, the "Bonny's Bon Bons" label was to remain; when questioned, the representative indicated that it would be sold in the drugstores often as a "special," at a price considerably lower than Bernice's other outlets had been getting.

Bernice is now considerably upset and confused, but nevertheless excited. Jokingly, she says, "All I can expect now is to be asked into a conglomerate." Yet it is satisfying and challenging to be so in demand. Her health is now excellent, and she is only approaching "middle age," so could operate the business whichever way she decides. However, she has some misgivings about making any move that would cause her to depart from the pattern which has become so successful thus far.

How would you approach a solution of the problem facing Bernice Brevoort? What factors and people are involved in each decision, and what situations might arise, favorable and unfavorable, as a result? What goals might she set? What plans should she make? Assume prices and amounts, based on conversations with stores, if it will help to make the problem clearer.

Source: Baumback, Clifford. How to Organize and Operate a Small Business. 5th ed. Englewood Cliffs: Prentice-Hall, 1973.

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ASSIGNMENT SHEET #2

Check your risk-taking potential.

Self-tests can be useful indicators of areas in your personal activities or in your professional behavior that might indicate potential difficulties. This test is designed to indicate some signals of getting into "deep water." Answer the following questions as they apply to you, score yourself, and use the table below the test as an indicator.

1. I am disorganized. I jump, often without warning, from one job to another. I begin jobs in the middle and often have more than two jobs going on in my head at the same time.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

2. I have a good imagination. I am able to think creatively, and I enjoy stretching my mind to its limits and considering broad horizons.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

3. I fly into rages. I fail to control my emotions. I insult my subordinates and intimidate my peers.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

4. I have a good appreciation of the value of team spirit. I encourage my people to take charge, and accept criticism well. Helpers or suggestions don't threaten me.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

5. I pass the blame for mistakes or the authority for decisions to other people. I either can't (or won't) accept the responsibility for the actions of others in my business, and I try to avoid even a casual involvement in things that might be potential problems.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

6. I have a good understanding of people. I have the ability to listen to others and to learn from them, whether superiors or subordinates. I can be sympathetic and enjoy being helpful to others.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

7. I resent change and take whatever steps are necessary to resist changes in my responsibilities or in my work assignments or methods. The past to me has great security.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

8. I am not defensive. I can overlook personal attacks and don't regard every insult or off-hand remark as a personal challenge.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

9. I have personal problems. I drink to excess and this can lead to "family problems." I come up with "secret" problems which I don't tell anyone about.
   This describes me:
   1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
   5. never___

10. I have "made it." I have confidence in the organization and its ability to "carry me" from now on.
    This describes me:
    1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
    5. never___

11. I am flexible. I am willing to look at some other positions and change when I'm reasonably convinced the new approach is better. I can compromise with others.
    This describes me:
    1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
    5. never___

12. I don't like risk and won't take any risk unless forced. Competition is unnecessary and not worth the risk or the potential cost.
    This describes me:
    1. perfectly___ 2. usually___ 3. occasionally___ 4. seldom___
    5. never___

Score Yourself for Your DWQ

A. Count the total points (1 through 5) for the odd-numbered items. Next, count the total points for the even-numbered items.
B. Subtract your total score on the odd-numbered items from 30, and add the result to your even-numbered score total.
C. The result is your DWQ.

What Your Score Means

6-10 points	No deep water problem. You're walking on water.
11-20 points	Feet wet. You're in good shape.
21-32 points	Hip deep. You might have some areas where you can do some rethinking.
33-43 points	Treading water, but your head is still above water. Several signals should warrant your attention. Use high even-numbered scores and low odd-numbered scores to indicate potential trouble spots.
44-54 points	You're over your head and in real trouble. Take corrective action immediately.

Naturally, this test of your DWQ[1] is not foolproof. It was designed to give you a way of doing some self-analysis, and pinpointing areas in your behavior (on the job as well as off) where you could be getting yourself into trouble. If you have several items where your score is negative, you should take some corrective action immediately. To put off doing so is to invite later problems when changing conditions and changing demands by the organization require your best efforts.

[1]Deep Water Quotient

Source: Preston, Paul. Management for Supervisors. Englewood Cliffs: Prentice-Hall, 1978.

INDEPENDENT BUSINESS OWNER/MANAGERS
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ASSIGNMENT SHEET #3

C A S E

SAM TUTTLE AND SONS

Sam Tuttle started an air conditioning and heating firm shortly after World War II on borrowed funds. Sam is particularly proud of his business because it has always been successful. He has obtained a reputation for providing a quality product and good service at a reasonable price.

Sam has two children, both sons, who are 20 and 22 years of age. Both sons are single and are currently working in the business. Sam would like to leave his business to them when he retires in five years. The business has been very profitable, but Sam is not sure it will continue to provide sufficient profit to provide a very comfortable living for both sons when they marry and have their own families.

Sam has discovered that he can obtain an exclusive distributorship in a nearby town for the same brand of equipment he is now using. He has thoroughly investigated the potential of the new business and is firmly convinced it will equal the present business in profit. Sam has found a suitable location and feels he has sufficient funds to finance the new location.

Sam is presently wondering if he should change the form of ownership of his business. He knows very little about the various forms of ownership and has asked your help.

QUESTIONS

1. Should Sam retain both businesses as a sole proprietorship? Why?

2. Would you advise Sam to use Subchapter "S" if he sets up a corporation? Why?

Source: Pickle, Hal B. and Royce L. Abrahamson. Small Business Management. New York: John Wiley & Sons, 1976.

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REVIEW SHEET

Check what you have learned about goal-setting, risk-taking, use of consultants, research and development, and incorporating, by completing the following review sheet. Then check your answers with the information sheet materials. If you get all eight items right, you're doing a terrific job. Seven right is good; five right is fair; and if you got four or less right, you need some review on the principles.

1. Match the following terms and their definitions:

_____ A. Planning	1. Drawing up a scheme of action, projects, programs, outlines, and schedules.
_____ B. Risk	2. The chance of loss; degree of probability of loss.

2. List the two patterns of planning typically used by owner/managers and the five characteristics of good planning.

   patterns:

   a.

   b.

   characteristics:

   a.

   b.

   c.

   d.

   e.

3. Explain the process of planning, including at least five requirements for planning and five pitfalls to be avoided in planning.

   requirements:

   a.

   b.

   c.

d.

e.

pitfalls:

a.

b.

c.

d.

e.

4. List the benefits of planning and illustrate an understanding of the relationship between planning and management by drawing a diagram of the management by objectives process.

benefits:

a.

b.

c.

d.

e.

diagram of MBO:

5. Discuss risk-taking in business, specifically four dangers in risk-taking and four methods of dealing with business risks.

dangers:

a.

b.

c.

d.

methods:

a.

b.

c.

d.

6. List the various sources of help available to the small business owner/manager, including four professional services, uses of management consultants, and other sources.

professional services:

a.

b.

c.

d.

managem nt consultants:

a.

b.

other sources:

a.

b.

7. Explain how the small business can be involved in research and development.

8. List five advantages and seven disadvantages of incorporating and discuss the Subchapter "S" form of corporation available to small businesses.

advantages:

a.

b.

c.

d.

e.

disadvantages:

a.

b.

c.

d.

e.

f.

g.

Subchapter "S":

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